

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3	WASHINGTON UTILITIES AND)	
	TRANSPORTATION COMMISSION,)	DOCKET NO. UT-950200
4)	
	Complainant,)	VOLUME 27
5)	
	vs.)	Pages 3560 - 3725
6)	
	U S WEST COMMUNICATIONS, INC.,)	
7)	
	Respondent.)	
8	-----)	

9 A hearing in the above matter was held at
10 10:16 a.m. on January 24, 1996, at 1300 South
11 Evergreen Park Drive Southwest, Olympia, Washington
12 before Chairman SHARON L. NELSON, Commissioners
13 RICHARD HEMSTAD, WILLIAM R. GILLIS and Administrative
14 Law Judge C. ROBERT WALLIS.

15
16 The parties were present as follows:

17 U S WEST COMMUNICATIONS, by EDWARD SHAW,
18 DOUGLAS OWENS and MOLLY HASTINGS, Attorneys at Law,
19 1600 Bell Plaza, Seattle, Washington 98191.

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

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

Cheryl Macdonald, CSR

Court Reporter

1 APPEARANCES (CONT.)

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

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

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

12 MCI, by ROBERT NICHOLS, Attorney at law,
13 2060 Broadway, Suite 200, Boulder, Colorado 80302.

14 DEPARTMENT OF INFORMATION SERVICES, by
15 ROSELYN MARCUS, Assistant Attorney General, 1125
16 Washington Street Southeast, PO Box 40100, Olympia,
17 Washington 98504.

18 AMERICAN ASSOCIATION OF RETIRED PERSONS, by
19 RONALD L. ROSEMAN, Attorney at Law, 2011 14th Avenue
20 East, Seattle, Washington 98112.

21 ENHANCED TELEMAGEMENT, INC., by SARA
22 SIEGLER MILLER, Attorney at Law, 2000 NE 42nd Street,
23 Suite 154, Portland, Oregon 97213.

24 NORTHWEST PAYPHONE ASSOCIATION and METRONET
25 SERVICES CORPORATION, by BROOKS HARLOW, Attorney at
Law, 4400 Two Union Square, 601 Union Street, Seattle,
Washington 98101.

19
20
21
22
23
24
25

03562

	I N D E X					
	WITNESSES:	D	C	RD	RC	EXAM
1						
2	SPINKS		3563		3592	
3	PURKEY	3602	3604	3664		3654
4	STRAIN	3669	3671	3721		
5	EXHIBITS	MARKED	ADMITTED			
	610C	3585	3592			
6	615T, 616-620	3601	3604			
	621C, 622, 623					
7	624	3601	3617			
	625C	3601	3626			
8	626C	3601	3654			
	627	3602	3604			
9	628C	3602	3626			
	629C	3602	3626			
10	630C	3657	3664			
	631T	3668	3671			
11	632	3668	3671			
	633T	3668	3671			
12	634	3668	3671			
	635	3668	3671			
13	636	3668	3672			
	637	3668	3695			
14	638	3668	3671			
	189		3723			
15	54T, 55-58		3604			
	59C, 60C, 61-66		3604			
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						

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

2 JUDGE WALLIS: Let's be back on the record,
3 please, for our Wednesday, January 24, 1996 session in
4 the matter of docket UT-950200, U S WEST
5 Communications. When we recessed on Monday we were in
6 the midst of the examination of Mr. Spinks, and my
7 recollection is that the company had concluded its
8 examination and other persons were about to begin. Is
9 that correct? Appears to be. Let's take up at this
10 time with the examination of Mr. Spinks. Next witness
11 is scheduled to be Mr. Purkey.

12 Before Mr. Purkey takes the stand we'll
13 take a few minutes to make sure that the exhibit
14 numbers are in order and then prior to the afternoon
15 session we'll take a few minutes and talk about
16 scheduling and post hearing presentation. So with that
17 let's begin now with the examination of Mr. Spinks.
18 Public counsel.

19 MR. TROTTER: No questions.

20 JUDGE WALLIS: AT&T.

21 MS. PROCTOR: Yes, thank you.

22

23 CROSS-EXAMINATION

24 BY MS. PROCTOR:

25 Q. Mr. Spinks, I just have a few questions

03564

1 concerning an area of your testimony. In your direct
2 testimony at page 36 you state that "all of the
3 company's toll repricing proposals exceed the toll
4 price floor calculated under the current test." And
5 basically that was the area I wanted to ask you some
6 questions about?

7 A. Very well. I have that.

8 Q. Do I understand that your -- that the
9 results of your analysis are shown in your exhibit
10 that has been marked as 607C?

11 A. That's correct.

12 Q. And that's just a single page exhibit; is
13 that correct?

14 A. Yes.

15 Q. I wanted to focus on MTS. Is it fair to
16 say that you just focused on the one rate band, the
17 rate band for which U S WEST proposes to charge 18
18 cents a minute?

19 A. Well, when you say focus that was the price
20 that I used, the proposed rate that I used for the
21 test, because that rate band -- that price is the
22 price associated with the rate band that contains the
23 statewide average link of haul for an MTS call.

24 Q. So you didn't consider the other rate bands
25 that are priced, for example, lower than 18 cents a

03565

1 minute in your analysis?

2 A. That's correct. In my analysis I used the
3 band that encompassed the average length of haul
4 because my thinking was that that has been an issue in
5 the past. I had not revisited imputation until this
6 case. Where we have left it in U-88-2252T was the
7 issue that was raised of WATS tailblock rate whether
8 or not that rate passed an imputation test, and in
9 that rate the Commission indicated the lowest rate
10 referring to, I assume, the WATS service which was
11 under consideration in that case was the relevant rate
12 to apply the imputation test to.

13 With regard to MTS the company then raised
14 the issue of whether the nighttime and evening rates,
15 as well as rates in the zero to 8 mileage band were in
16 fact rate elements, separate rate elements, and
17 pointed out that they would not pass an imputation
18 test if the Commission's ruling had applied to those
19 services.

20 The Commission in its order on rate
21 consideration in 2252 asked parties to conduct time of
22 day access charge studies, the purpose being to examine
23 what the effect of moving to a time of day access
24 charge structure would be. The staff report that was
25 filed with the Commission subsequently, I believe in

03566

1 1990, showed that if we had moved to that type of a
2 structure, a time of day access charge structure, the
3 results would have benefited AT&T and would have hurt
4 MCI and Sprint by way of profitability and market
5 share, and hence would actually have the effect of not
6 enhancing or encouraging competition.

7 The Commission didn't issue any order
8 subsequent to that report, and took no action. I
9 assume that it was because of those concerns raised in
10 the report. So in considering MTS rates then in this
11 case, and in what the proper comparison was for
12 imputation purposes, it seemed to me that the relevant
13 -- the tests should apply to what the relevant
14 economic market is for the service, and customers --
15 companies do not compete for customers on the basis of
16 the distance that they are from the central office.
17 They do compete for customers on the basis of volume,
18 so if you look at the other business plans where
19 they're differentiated on the basis of volume I use
20 the tailblock rate, the volume tailblock rate, in that
21 imputation analysis. But with regard to MTS it seemed
22 to me that it was the daytime rate and the average
23 length of haul -- the average length of haul would be
24 the relevant rate and that's why I used that 18 cents
25 there.

03567

1 Q. I knew you would tie it up somehow, Mr.
2 Spinks. Thank you, that was very helpful. But then
3 based on your explanation you haven't looked at the
4 entire MTS rate proposal of U S WEST and analyzed
5 whether the service as a whole the proposed rates
6 exceed a price floor, have you?

7 A. Well, I'm not sure what you mean by your
8 question. If you're referring to average revenue per
9 minute, which one might assume you mean by "the
10 service as a whole," it would also, I believe, pass
11 that test, too. I think in Mr. Purkey's testimony
12 there's an average revenue per minute figure that it
13 also would exceed the floor.

14 Q. Did you examine Mr. Purkey's analysis in
15 any detail?

16 A. Yes, I think I did, fair amount of detail.

17 Q. I was a little confused because looking at
18 your Exhibit 607C, the company proposed floor that you
19 reflect, I was unable to locate that number on Mr.
20 Purkey's exhibit and in fact Mr. Purkey's exhibit
21 reflected, I thought, a higher number for the MTS
22 floor?

23 A. Well, I have my note that they came out of
24 his exhibit DP-3 and DP-6, and I don't have those
25 exhibits with me so I can't check them for you, but

03568

1 they should be contained in those exhibits.

2 Q. Okay. In establishing the price floor, is
3 it fair to say that there are two pieces of
4 determining the price floor. There's the imputation
5 of the price of access as well as the inclusion of the
6 remaining inputs at their TS LRIC?

7 A. Yes.

8 Q. And when you were calculating what you
9 denominated, I gather, as the Commission basis floor,
10 what did you include in your number?

11 A. Well, I would have included tariffed rates
12 for all services that were required and long-run
13 incremental cost for the billing and collection and
14 other services for which there was not a bottleneck
15 monopoly.

16 Q. And to keep this simple, if that's
17 possible, could we just focus again on MTS rather than
18 on the optional calling plans?

19 A. Sure.

20 Q. I assume that you did the same analysis for
21 each of the plans as you did for MTS; is that correct?

22 A. Yes. They were all done consistently, on a
23 consistent basis.

24 Q. You say you included the tariffed access
25 rate. Did you weight that to reflect the percentage

03569

1 of independent company traffic?

2 A. Yes. There is an imputation model which
3 was developed in the U-87-1083, and there were some
4 minor modifications to that, but essentially, yes.
5 The numbers had to be adjusted for independents to
6 reflect the purchase of Contel by GTE, and I think
7 that -- I think that was the only change.

8 Q. Did you reflect the sale of exchanges by
9 U S WEST to PTI in your analysis?

10 A. Yes. That had been included in Mr.
11 Purkey's analysis, and I used those numbers.

12 Q. Did you use Mr. Purkey's percentages for
13 determining the weighting of the various U S WEST to
14 U S WEST toll as compared to the calls completed or
15 originated in independent territory?

16 A. I believe so. Mr. Purkey provided some
17 worksheets in backup to his imputation analysis that
18 contained various factors which I used in the
19 imputation. He had made some adjustments, I think, to
20 exclude independents from the calculation, but
21 whatever adjustment he made to do that I restored in
22 mine to properly reflect the originating -- or the
23 independent access charges in the calculation.

24 Q. If his relative percentages of traffic
25 within U S WEST territory as compared to traffic with

03570

1 the independents were incorrect did you make any
2 changes in those?

3 A. I wouldn't have known whether they were
4 incorrect or not. I had no way of testing the
5 validity of the data. He did, I believe, have a
6 cross-reference to various traffic studies that are
7 done by the company and the industry now, and they
8 appeared to be very similar to the traffic
9 distributions that I had seen in prior studies in
10 prior calculations of imputation, so they didn't look
11 out of line.

12 Q. But those studies were completed before the
13 sale of exchanges to PTI, weren't they?

14 A. Yes.

15 Q. Were they also completed before GTE became
16 a primary toll carrier?

17 A. Yes. And GTE's being a primary toll
18 carrier was another adjustment that had to be made to
19 the imputation model. There were two. The sale of
20 Contel to GTE and to reflect the status of GTE as a
21 primary toll carrier.

22 Q. Were you able to verify whether the expense
23 that Mr. Purkey showed for access paid by U S WEST to
24 the independent companies for originating and
25 terminating access as well as billing and collection

03571

1 were consistent with the other numbers used in the
2 rest of the case?

3 A. No.

4 Q. Were you able to determine whether the
5 minutes of use that Mr. Purkey used in his worksheet
6 were consistent with the minutes of use used elsewhere
7 in this case?

8 A. No.

9 Q. The other aspect of the price floor is
10 inclusion of the long-run incremental cost of the
11 other monopoly inputs. Where did you get the value
12 for the long-run incremental cost?

13 A. I used the costs that were presented by Mr.
14 Purkey in his testimony.

15 Q. And do you know whether the costs that he
16 showed in his analysis were consistent with the costs
17 showed by Mr. Farrow in his most recent exhibit, I
18 believe it's 485C for MTS?

19 A. The long-run incremental costs that would
20 have been included in the tests would be for the
21 marketing and billing, some aspects of billing and
22 collection, and they wouldn't have been shown as I
23 think in Mr. Farrow's cost studies as separate
24 studies.

25 Q. So the number that you used, was that shown

03572

1 by Mr. Purkey?

2 A. That's correct.

3 Q. Now, in using the 18 cents a minute, the
4 one rate band, how did you account for the discounts
5 of 25 percent and 45 percent for evening and night
6 weekend calling in your analysis?

7 A. I didn't account for them specifically.

8 Q. And similarly, you did not account for the
9 other rate bands that are priced at 8 and 12 cents
10 respectively?

11 A. That's correct, for the reasons earlier
12 stated.

13 Q. Would it be fair to say, Mr. Spinks, that
14 this imputation analysis and the whole area of
15 imputation would be a lot simpler if access prices
16 were set at TS LRIC?

17 A. No. I don't think that would simplify the
18 process any. It's a very complex set of calculations,
19 and the particular numbers that you put in, the access
20 charges change all the time so you're always changing
21 the rates that are used as the access charges change,
22 so, no, that wouldn't particularly simplify the
23 calculation.

24 Q. In looking at the access charges in this
25 case, obviously your analysis preceded that of Dr.

03573

1 Wilcox's most recent proposal of a week ago; is that
2 correct?

3 A. Yes.

4 Q. And in the analysis done by Mr. Purkey, did
5 he account for the fact that something like 40 percent
6 of the access charge reduction is going to be solely
7 for 800 services?

8 A. I don't know.

9 Q. Did you account for that in your analysis?

10 A. No, I would not have.

11 Q. Thank you.

12 MS. PROCTOR: No further questions.

13 JUDGE WALLIS: Mr. Harlow.

14 MR. HARLOW: Thank you.

15

16 CROSS-EXAMINATION

17 BY MR. HARLOW:

18 Q. Morning, Mr. Spinks.

19 A. Good morning.

20 Q. On page 36 of your direct you stated that
21 all the toll repricing proposals of the company
22 have passed imputation in your view?

23 A. That's correct.

24 Q. Did you do an imputation analysis of U S
25 WEST's Best Deal toll rate?

03574

1 A. No, I didn't. We get monthly reports on
2 that and monitor that on a monthly basis to insure
3 that it covers costs.

4 Q. Do you know if it has been?

5 A. Yes, it has the last report.

6 Q. What's the most current data?

7 A. The last one would have been from last
8 summer, maybe July.

9 Q. Did you take a look at Exhibit 5 -- it's
10 the backup work papers to Exhibit 517C, Mr.
11 Lanksbury's pay phone data through November 1995?

12 A. I don't know if I have that with me.

13 Q. Do you recall if you took a look at those
14 numbers through November of 1995?

15 A. I would have to see the exhibit, I think,
16 to refresh my memory.

17 Q. It's Exhibit 540C. Have you seen that
18 more current data?

19 A. Yes. I saw it during Mr. Lanksbury's cross.

20 Q. Did you perform an imputation analysis on
21 the Best Deal offering using that data from Exhibit
22 540C?

23 A. No.

24 Q. For the record, could you briefly describe
25 what the Best Deal offering pricing is?

03575

1 A. I believe that that's a pay phone toll,
2 intraLATA toll calling option; for one dollar you can
3 talk an unlimited amount of time.

4 Q. Are you aware of whether or not the company
5 submitted an imputation analysis for the Best Deal
6 offering in connection with this filing?

7 A. No. I don't know if they submitted
8 anything in connection with this filing. I know that
9 we require them to file monthly reports with us during
10 the trial. I believe it was originally offered on a
11 trial, and they were coming in as of last summer, at
12 least, and I recall reviewing and discussing a couple
13 of those with other staff.

14 Q. Mr. Spinks, as I understand it, one of the
15 recommendations of your testimony is to reduce the
16 complex line rate, complex business line rate from an
17 average of \$36.84 to \$25.85 per month?

18 A. That's correct.

19 Q. In developing that recommendation, did you
20 consider the effect or the potential effect of that
21 kind of a rate decrease on U S WEST competitors?

22 A. I'm not sure what you would be referring to
23 by U S WEST competitors.

24 Q. Well, I'm referring to -- let's narrow the
25 focus at this time to -- let me phrase another

03576

1 question first. Are you aware that companies
2 intervenors ETI and Metronet compete with U S WEST by
3 reselling and rebilling Centrex Plus service to
4 business customers?

5 A. I'm aware that they resell U S WEST Centrex
6 Plus services.

7 Q. Do you consider them to be in competition
8 with U S WEST retail services to business customers?

9 A. Oh, I suppose in the sense that they are.

10 Q. Did you consider the effect of your
11 recommendations on companies such as Metronet, ETI and
12 potential new entrants in that business?

13 A. Well, I believe that to the extent that
14 I've recommended a Centrex NAR rates that don't
15 include the NAC price and recommended reduced NAC
16 prices, rates, for those services, yes, but I have not
17 addressed resale per se.

18 Q. So it was your assumption that your
19 recommended corresponding change in the NAR rate would
20 help protect companies such as Metronet and ETI from
21 the impact of your proposal?

22 A. Well, there's a notion that regardless of
23 whether it's Metronet or anybody else that there be
24 some equality in the rates differentials between
25 complex lines and Centrex NARs, and I've tried to

03577

1 maintain that parity in my recommendations.

2 Q. Are you aware that the Centrex Plus tariff
3 contains a rate element called the CUD cut, if you
4 will, that enables customers of Centrex Plus with --
5 for their lines over 51 in their system to acquire the
6 equivalent of a NAR for \$3.50 per line?

7 A. I'm not sure I'm familiar with the term
8 CUD, but I am familiar with that rate structure that
9 you're citing.

10 Q. That \$3.50 rate element you're familiar
11 with?

12 A. Yes.

13 Q. And have you heard it referred to as a NAR
14 substitute perhaps?

15 A. No.

16 Q. Well, let me ask you, would your proposal
17 with regard to NARs have any effect on this \$3.50 rate
18 element that you're familiar with?

19 A. No, it shouldn't.

20 Q. So, in other words -- strike that. Mr.
21 Spinks, would you be willing to consider removing
22 potential barriers to resale as a condition -- resale
23 of Centrex services as a pre-condition to or in
24 companion with your recommendations to reduce the
25 business line rate by over \$10?

03578

1 A. I don't think that staff has considered the
2 resale -- the question of resale per se in this case.
3 That issue, like the issue regarding an end user
4 concept that would require the loop cost to be placed
5 on the customer, the entire loop cost, both came
6 before us in the context of the direct testimony of
7 some of the intervenors. In the six weeks that we had
8 to prepare our rebuttal testimony we simply couldn't
9 address those issues.

10 Q. Mr. Spinks, are you familiar with the NAC
11 pricing structure in the Centrex Plus tariff?

12 A. Yes.

13 Q. And is it your understanding that there are
14 some discounts given to customers with 1 to 20 lines
15 who enter into contracts for Centrex Plus and there's
16 some additional discounts for customers with 21 to 50
17 lines, and then for customers with greater than 50
18 lines there's a discount that varies based on the
19 distance from the central office?

20 A. Yes.

21 Q. And do you have an approximate idea of what
22 the potential discount is for a customers with over 51
23 station lines at a particular location compared to a
24 customer with 1 to 20 lines at a particular location?

25 A. No, I don't.

03580

1 it, is the rate design witness for a business line,
2 rate design witness for the staff. Mr. Spinks's
3 recommendations with regard to the business line rate
4 that my client Metronet must compete with will have a
5 substantial impact on Metronet as well as competition
6 in general, and certainly it's not only appropriate but
7 the Commission and the staff should look at the impact
8 on competition and the availability for
9 telecommunications services as part of the statutory
10 mandate. And I think it's important and we should
11 certainly have the opportunity to explore with Mr.
12 Spinks his thoughts, if any; if not, what he failed to
13 consider in making his recommendations about the
14 business line rate with regard to its effect on
15 competitors of U S WEST.

16 MR. SHAW: Your Honor, the witness
17 testified that staff did not consider that and did not
18 file any testimony on it either in direct or rebuttal,
19 again, because it's not an issue in the case.

20 MR. HARLOW: Your Honor, where I'm going is
21 to try to test whether Mr. Spinks would find
22 Metronet's expected recommendations with regard to
23 rate design of the company for Centrex, which is
24 clearly an issue in a general rate case, whether he
25 would find those recommendations inconsistent with his

03581

1 testimony about the business line rate and the overall
2 rate --

3 JUDGE WALLIS: Just a minute. Let me hear
4 from Mr. Smith.

5 MR. SMITH: Your Honor, I'm inclined to
6 agree with Mr. Shaw, that Mr. Spinks does not address
7 the cost justification for the NAC discount and it's
8 not part of his testimony. I did not object myself
9 because I'm willing to let him say what he knows if
10 anything about the cost justifications that may exist.

11 JUDGE WALLIS: It does appear to be beyond
12 the scope of the witness's testimony and the purposes
13 for which he's appearing so the objection will be
14 sustained.

15 Q. Mr. Spinks, would it be inconsistent with
16 your recommendations for U S WEST to be required to
17 eliminate the provision in its Centrex Plus NAC tariff
18 that a customer must also purchase a standard feature
19 package?

20 MR. SHAW: Same objection, Your Honor.
21 Centrex Plus is a competitively classified service.
22 It opens up a whole bunch of issues which is way
23 beyond the direct of this witness. If Metronet wanted
24 to assert some sort of a different rate design it
25 should have sponsored a witness. I don't think it can

03582

1 convert Mr. Spinks into its witness when he does not
2 discuss this at all in his direct.

3 MR. HARLOW: My question specifically went
4 to --

5 JUDGE WALLIS: Let's hear from Mr. Smith.

6 MR. SMITH: I am going to have to agree
7 with Mr. Shaw again. Like I say, I personally have no
8 objection to Mr. Spinks telling what he knows about
9 these things. I think it is beyond the scope of his
10 testimony. To the extent we get far afield I feel
11 we're going to drag things out.

12 JUDGE WALLIS: Now Mr. Harlow.

13 MR. HARLOW: Actually I would probably be
14 done with my entire cross but for the objections, so
15 I'm not trying to drag things out. As far as Centrex
16 Plus being competitively classified, my question went
17 to the concern of the NAC rate which is found in WN U
18 31, so it's not going to the competitive portion of the
19 service. And again I think it's important for the
20 Commission to understand some things that this witness
21 may not have considered looking at the rate design of
22 the company in making his recommendation that business
23 line rates be substantially reduced when resellers are
24 still under a discriminatory pricing scheme.

25 As far as this coming up at this late

03583

1 date I do wish perhaps in hindsight we had sponsored
2 a witness. However, Commission's very recently issued
3 order in the interconnect case indicated that the
4 Commission was going to be looking at resale issues in
5 this docket.

6 JUDGE WALLIS: On the limited basis of the
7 question addressing a matter that was a part of the
8 witness's testimony, that is, the NAC, then the
9 question will be allowed.

10 MR. HARLOW: At the risk of trying to
11 rephrase it and changing something that would raise a
12 new objection, I would ask the court reporter to read
13 back the question, please.

14 (Record read as requested.)

15 A. I think it would be neither consistent or
16 inconsistent with my recommendations.

17 Q. Mr. Spinks, would it be inconsistent with
18 your recommendations that U S WEST be required to
19 eliminate the per location prerequisite to obtaining
20 the NAC station line discounts as contained in its
21 Centrex Plus tariff?

22 MR. SHAW: Same objection, Your Honor, and
23 specifically, Centrex Plus is a competitively
24 classified service as a service intended to compete
25 with PBX-based private networks, and the company is

03584

1 free under the law when a service is competitively
2 classified to be free of the discrimination statutes
3 that this Commission administers for tariff services,
4 and just because the transport piece parts are
5 tariffed does not change that situation. So this is
6 really leading us far afield.

7 As far as the company is concerned it would
8 be free to withdraw the service because it's
9 competitively classified as a competitive service, so
10 this is just not productive and it's just way beyond
11 the direct of the witness.

12 JUDGE WALLIS: I think consistent with the
13 prior ruling it appears to go a limited rather than an
14 extensive way, and I think that the witness should be
15 allowed to answer.

16 A. The answer would be the same as my prior
17 answer that it would be neither consistent or
18 inconsistent with my testimony, recommendations.

19 Q. Mr. Spinks, have you looked at whether or
20 not U S WEST Centrex Plus tariff prices above U S
21 WEST's costs?

22 A. No, I did not.

23 Q. Do you know whether the company has a
24 position on whether or not its Centrex Plus tariff
25 prices are above cost?

03585

1 A. No, I am not aware.

2 Q. Thank you, Mr. Spinks.

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

4 JUDGE WALLIS: Mr. Nichols.

5 MR. NICHOLS: I have no further questions.

6 JUDGE WALLIS: Ms. Miller. Ms. Miller has
7 a document, some copies which have been distributed.
8 I'm marking as Exhibit 610C for identification a
9 two page document which is designated response to
10 request No. TRA 01-080.

11 (Marked Exhibit 610C.)

12 CROSS-EXAMINATION

13 BY MS. MILLER:

14 Q. Good morning, Mr. Spinks.

15 A. Good morning.

16 Q. I would like to address your attention to
17 your testimony, direct testimony, on page 26 at lines
18 18 through 21.

19 A. Yes, I have that.

20 Q. Is it still part of your proposal that
21 there be a statewide average for Centrex NARs, simple
22 and complex business lines and DSS trunked services?

23 A. In my rebuttal testimony, I revised the
24 recommendation insofar as it applies to DSS trunks and
25 Centrex NARs. In my original direct testimony I had

03586

1 recommended a statewide average price but I had
2 inadvertently included the NAC in the price of the
3 NARs and DSS trunks. I removed that -- recognized
4 that in my rebuttal testimony and the revised numbers
5 that resulted from that were included in the errata
6 sheet which was marked as Exhibit 603.

7 Q. So that your current proposal has taken out
8 that NAC element?

9 A. Yes, at the assumed \$7 rate that we had
10 recommended.

11 Q. Thank you. On page 27 of your direct,
12 lines 16 through 17 you describe changes in the NAR
13 rate and the resultant decreases for customers. Do
14 you see that?

15 A. Yes.

16 Q. Could you explain further how these
17 decreases were calculated?

18 A. The decreases were calculated as the
19 difference between the current rate, current rates in
20 rate group 1 through 3, and the proposed rate of
21 \$18.85, and I note that when I updated those I added
22 the \$7 NAC to what I had earlier described, the \$18.15
23 and \$14.81 as the difference from the statewide
24 average. However, in that I had used the current
25 rates for Centrex NARs that were in effect prior to

03587

1 the Commission's order in the fall of '94, December
2 '94, changing those rates, and actually I had included
3 the wrong Centrex NAR rates in my original testimony.
4 This update did take that into account so that the
5 revenue requirement -- the revenue effect shown in
6 Exhibit 5 is correct. However, these differences
7 don't reflect the difference for the current rate.

8 Q. Thank you for that clarification. I would
9 like to direct your attention to the exhibit that was
10 distributed today and identified as 610C. Would you
11 agree that the prices that are shown here are not
12 those of the current tariff?

13 A. Yes.

14 Q. Would you also agree, however, that this
15 does represent a current formula that was decided in
16 the Centrex Plus case?

17 A. Well, it represented the company's version
18 of a formula. We did not agree with using the term
19 loop costs in the formula, and had reported -- well,
20 my recollection is that when we filed a joint
21 stipulation, when the company and staff and other
22 parties except for Metronet I believe reached some
23 stipulation of the points of disagreement regarding
24 the Centrex Plus issues in the Commission's order,
25 that we had not resolved the issues of the -- of what

03588

1 rates should be used there. The staff's position was
2 that the price should be used not the cost.

3 Q. Thank you. Before you just testified that
4 you had changed your original average price because it
5 had included the NAC and then you backed that figure
6 out. In calculating that new price, did you also back
7 out the NTS-COE element?

8 A. No, I did not.

9 Q. On page 34 of your direct testimony at
10 lines 7 through 12 you state that NACs should be
11 reduced to \$7 monthly?

12 A. Yes.

13 Q. Do you believe that, assuming the figures
14 cover costs and some contribution, that Mr. Zepp's
15 \$6.75 monthly rate is reasonable?

16 A. I think insofar as both rates cover costs
17 and provide a contribution that they both could be
18 viewed as reasonable.

19 Q. Thank you. On pages 39 through 40 of your
20 direct, could you explain why in staff's opinion that
21 the usage test proposed by U S WEST witness Mr. Jenson
22 would result in different loop rates for a complex
23 line customer versus Centrex customers?

24 A. Could you repeat that question.

25 Q. Certainly. On pages 39 through 40 you

03589

1 describe how the usage test proposed by U S WEST
2 witness Mr. Jenson results in different, a different
3 alignment in rates between complex line customers and
4 Centrex customers. Could you further explain that,
5 please.

6 MR. SHAW: I will object that that's just
7 an open-ended friendly cross type question. If she
8 can be specific to some sort of amplification, but
9 just inviting the witness to further explain his
10 direct testimony without any focus is objectionable.

11 MS. MILLER: Your Honor, we've established
12 that the formula as it's shown in the 610C was U S
13 WEST's proposal in the Centrex Plus case, and I am
14 wondering how the effect of the change in usage
15 changes that formula. It's within his testimony. I
16 think it's within the scope.

17 JUDGE WALLIS: So you're limiting it to
18 just a question of how the change in usage changes the
19 formula?

20 MS. MILLER: Correct.

21 JUDGE WALLIS: The witness may respond.

22 A. I don't think that the change in usage
23 would have any effect on changing the formula per se.
24 I'm not sure -- Mr. Jenson's proposal was to not
25 use a loop test. I thought, however, in his rebuttal

03590

1 it did sound like he said he would be using it, so as
2 long as a loop test is used in addition to a usage
3 test, insofar as a test would still be required that
4 would be appropriate.

5 Q. In your rebuttal testimony at page 6, lines
6 21 through 23 you refer there to TRACER's NAR and DSS
7 pricing proposals?

8 A. Yes.

9 Q. Are you referring to -- what exactly are
10 you referring to in that sentence?

11 A. There what I'm referring to is what I
12 discussed earlier, that the TRACER pricing proposals
13 had correctly removed the cost of the NAC in order to
14 maintain parity between the prices of nonloop services
15 like DSS NARs and other loop-based services such as
16 1FBs and complex lines.

17 MS. MILLER: Thank you. That's all I have
18 right now.

19 JUDGE WALLIS: Is there any further cross
20 from parties? Commissioners.

21 COMMISSIONER HEMSTAD: I have no questions.

22 COMMISSIONER GILLIS: I have no questions.

23 MS. MILLER: Excuse me, one moment, Your
24 Honor. I would like to move to have 610C admitted.

25 JUDGE WALLIS: Is there objection?

03591

1 MR. SMITH: I will object to that. That
2 data request was neither asked nor answered by staff,
3 and Mr. Spinks indicated that this was the company's
4 formula and not the staff's, and this witness simply
5 cannot sponsor this exhibit.

6 MR. SHAW: I would join the objection.
7 Seems like it would have been more appropriately
8 directed at Mr. Jenson.

9 JUDGE WALLIS: Ms. Miller.

10 MS. MILLER: Your Honor, to the extent that
11 it's being submitted just to show the relationship
12 between the loop costs and the NTS-COE rates that both
13 were backed out of the complex business line and that
14 in fact when Mr. Spinks's average rate was calculated
15 the NTS-COE was not backed out, I think it is
16 pertinent to his testimony.

17 MR. BUTLER: Your Honor, if I might add,
18 during my cross-examination of Mr. Jenson I read him
19 that formula and he acknowledged that it was the
20 company's formula used in the Centrex Plus case.

21 JUDGE WALLIS: Ms. Miller, does that affect
22 your offer?

23 MS. MILLER: Only in the sense that it
24 supports it.

25 JUDGE WALLIS: Because under the

03592

1 circumstances I think it's appropriate that the
2 exhibit be received and it is received in evidence.

3 (Admitted Exhibit 610C.)

4 JUDGE WALLIS: Mr. Smith.

5 MR. SMITH: No redirect.

6 JUDGE WALLIS: So it's likely there will be
7 very few follow-up questions.

8 MR. SHAW: Just a couple.

9

10 RE CROSS-EXAMINATION

11 BY MR. SHAW:

12 Q. AT&T asked you some questions about your
13 imputation analysis of MTS. Do you agree that message
14 toll service offered by U S WEST to its customers to
15 originate toll calls is one service?

16 A. Yes.

17 Q. You further responded in response to AT&T
18 that carriers compete for customers on the basis of
19 volume. You will agree that customers with no volume
20 or very low volume of toll rated calls are less
21 desirable than customers with high volumes of
22 toll-rated?

23 A. Well, I don't know if they're less
24 desirable but the active competition appears to be for
25 the customers with the higher volumes.

03593

1 Q. In discussing again with AT&T about the
2 appropriate imputation test, directing your attention
3 to independent access charges charged all toll
4 carriers including U S WEST for terminating access, do
5 you agree that independent LECs have no monopoly,
6 legal monopoly, on terminating access?

7 A. No, I don't believe I could agree to that.

8 Q. Is it your testimony that in the state of
9 Washington that an independent LEC has absolute legal
10 right to terminate toll calls from other carriers on
11 its local exchange customers?

12 A. No. By definition, if it's a customer of
13 an independent LEC the loop that serves that customer
14 is the independent company's loop. There would be no
15 way for a toll call to be completed by another carrier
16 except for that loop.

17 Q. Would you agree that independent access
18 charges are composed of switching and transport
19 elements as well as the carrier common line elements?

20 MS. PROCTOR: Excuse me, Your Honor. I am
21 going to object. This is certainly beyond the scope
22 of anything that AT&T was asking of Mr. Spinks.

23 MR. SHAW: No, it isn't. There was a
24 series of questions about whether independent access
25 charges have to be put in at the rates charged as

03594

1 opposed to the costs so this is appropriate recross on
2 that subject.

3 MS. PROCTOR: Mr. Spinks's testimony was
4 that he included access at tariffed prices and we
5 engaged in some discussion about weighting, but we
6 certainly did not discuss whether or not access should
7 be included at anything other than its tariffed price.

8 MR. SHAW: My point, Your Honor. I'm
9 obviously entitled to cross on that.

10 JUDGE WALLIS: I think the subject was
11 opened sufficiently that this question is within the
12 scope of the subject.

13 A. I need the question again.

14 Q. Yes. I will just restate it. Do you agree
15 that independent LECs, like other LECs, charge for
16 access on a bundled basis composed of switching,
17 transport and carrier common line rate elements?

18 A. Yes, they do.

19 Q. And U S WEST is free, like any other
20 interexchange carrier, to provide its own switching
21 and its own transport and that the only thing that it
22 would have to get from an independent LEC, if it did
23 not have loop facilities to that LEC's customer, would
24 be access to the loop?

25 A. I would agree but also that the bright line

03595

1 for determining whether the costs should be included
2 or not are whether or not the service has effective
3 competition. We do know that transport -- markets for
4 transport are open, but I believe at this time the de
5 facto state of affairs is that transport continues to
6 be provided through U S WEST in the independent
7 traditional transport arrangements.

8 Q. In determining the TS LRIC costs of U S
9 WEST MTS, it is appropriate to use forward looking of
10 costs, based upon the lowest cost available
11 technology, isn't it?

12 A. For U S WEST, yes.

13 Q. For any TS LRIC study for any service of
14 any carrier, correct?

15 A. I don't know that I would go that far. If
16 U S WEST is going to calculate its TS LRIC cost then
17 it would use the going forward technology that was
18 available for that function to estimate the cost of
19 that function.

20 Q. Including the costs of terminating its
21 traffic, correct?

22 A. To the extent that's a function that U S
23 WEST estimates costs for, yes.

24 Q. You were asked some questions about the
25 rural sales adjustments by AT&T. You worked on that

03596

1 docket, Mr. Spinks?

2 A. Yes, I did.

3 Q. Are you aware that no alternative local
4 exchange carriers presently doing business in
5 Washington or any interexchange carriers bid for those
6 exchanges?

7 MS. PROCTOR: Objection. That's obviously
8 beyond the scope. All we talked about was the fact
9 that the imputation had to be adjusted for the sale of
10 exchanges. We certainly did not get into the details
11 of the sales.

12 MR. SHAW: Subject was brought up and I
13 think that this is an appropriate question. It's the
14 only question I have in this area.

15 JUDGE WALLIS: The question is allowed.

16 A. I need that question again, please.

17 Q. Having worked on the rural sales docket
18 involving U S WEST's sale of its rural exchanges, it's
19 true, is it not, that none of the new alternative
20 local exchange carriers doing business in Washington
21 or any of the interexchange carriers bid on the
22 purchase of those exchanges from U S WEST, did they?

23 A. I don't know.

24 Q. Questions by Mr. Harlow, he asked you a
25 question to the effect that considering the

03597

1 restructure of Centrex helps protect resellers from
2 reduced business rates as proposed by you and the
3 company in this case. Do you recall that question?

4 A. Yes.

5 Q. Is it your testimony that it is appropriate
6 Commission role to protect resellers from U S WEST
7 reducing its business rates closer to cost?

8 A. I don't believe that I have any testimony to
9 offer on those topics.

10 Q. Mr. Harlow asked you a question about
11 comparison of Centrex rates to costs. Do you recall
12 that question?

13 A. I believe so.

14 Q. Isn't it true that you asked in discovery
15 for current Centrex costs and those responses were
16 provided to you by the company in its rate case?

17 A. I do not recall seeing any Centrex cost
18 data. We asked for the costs of the packages and did
19 receive data on that. We didn't receive any cost
20 information on the NAR piece, and we didn't ask for
21 it either, but you are right, in relation to Mr.
22 Jenson's testimony regarding a reduction in the
23 package price, we did ask for a question that related
24 to the features portion of Centrex service and that
25 was provided, so to that extent you're correct.

03598

1 Q. Are you absolutely sure about that, Mr.
2 Spinks? Could you accept subject to your check that
3 you requested and you received all of the relevant
4 current cost data about Centrex including the features
5 and the NARs and the NACs?

6 A. Very well, but I don't recall any NAR data.

7 MR. SMITH: Do you happen to have a number,
8 Mr. Shaw?

9 MR. SHAW: We'll supply that to you. I
10 don't have it at the tip of my tongue.

11 Q. You testified that you believe your
12 proposed NAC rate of \$7 to be reasonable and the
13 proposed NAC rate of Dr. Zepp of \$6.75 to be
14 reasonable because both rates, in your opinion, cover
15 costs plus contribution. Would you agree that the
16 company proposed rate of \$11 covers cost plus
17 contribution?

18 A. Yes, I do.

19 Q. On the same basis you would agree that the
20 company proposed rate is reasonable and just has a
21 different markup?

22 A. I don't believe that I said they were
23 reasonable. I said they could be found to be
24 reasonable and to that extent your rate could, too, I
25 suppose.

03599

1 MR. SHAW: Nothing further.

2 JUDGE WALLIS: Are there further questions?

3 MR. HARLOW: I have some follow-up on
4 Mr. Shaw's cross.

5

6 RECROSS-EXAMINATION

7 BY MR. HARLOW:

8 Q. Mr. Shaw asked you regarding the
9 appropriateness of protecting resellers from reducing
10 business rates closer to costs. Do you recall that?

11 A. Yes.

12 Q. Do you have any understanding as to what
13 the Commission's policy is currently regarding resale
14 of U S WEST services?

15 A. Well, I recall from prior proceedings that
16 the policy -- that resale is an essential piece of
17 providing for competition to markets.

18 Q. Do you have any opinion on whether U S
19 WEST's per location pricing arrangement for Centrex
20 Plus NACs promotes or hinders that Commission policy?

21 MR. SHAW: Objection. It was asked and
22 answered.

23 MR. HARLOW: I don't believe this was asked
24 and answered. I believe it was objected to and my
25 questions were severely limited but I think Mr. Shaw

03600

1 opened up this area a little wider with his cross of
2 Mr. Spinks.

3 JUDGE WALLIS: The witness may respond.

4 A. The question is do I have any opinion on
5 whether the resale --

6 Q. On whether or not the NAC pricing
7 arrangement that's based on the number of NACs at a
8 particular location promotes the Commission's policy
9 or hinders the Commission's policy regarding resale?

10 A. No, I don't have an opinion.

11 JUDGE WALLIS: Are there any further
12 questions for the witness? It appears that there are
13 not. Mr. Spinks, thank you for appearing today.
14 You're excused from the stand. Let's be off the
15 record while Mr. Purkey steps forward.

16 (Recess.)

17 JUDGE WALLIS: Let's be back on the record,
18 please. The company is calling witness Dan Purkey to
19 the stand at this time.

20 Whereupon,

21 DAN PURKEY,
22 having been first duly sworn, was called as a witness
23 herein and was examined and testified as follows:

24 JUDGE WALLIS: In conjunction with Mr.
25 Purkey's appearance the following exhibits have been

03601

1 predistributed. His direct testimony is Exhibit 54T
2 for identification. His attachment DP-1 is 55. DP-2
3 is 56. DP-3 is 57. DP-4 is 58. DP-5 is 59C. DP-6
4 is 60C. DP-7 is 61. DP-8 is 62. DP-9 is 63. DP-10
5 is 64. DP-11 is 65 C. DP-12 is 66.

6 In addition a number of documents were
7 previously predistributed and were marked in the 300
8 series. Then, because of scheduling difficulty Mr.
9 Purkey was not able to appear and the numbers were
10 assigned to other documents and they are being
11 renumbered at this time. Mr. Purkey's rebuttal
12 testimony is 615T for identification. His attachment
13 DP-13 is 616. DP-14 is 617. DP-15 is 618. DP-16 is
14 619. DP-17 is 620. DP-18 is 621C. DP-19 is 622.
15 And DP-20 is 623.

16 (Marked Exhibits 615T, 616, 617, 618, 619,
17 620, 621C, 622 and 623.)

18 JUDGE WALLIS: The Commission staff
19 distributed copies of Mr. Purkey's deposition and that
20 is marked as 624 for identification. AT&T distributed
21 copies of response number ATT 01-076. That is 625C
22 for identification. And also response numbered WUT
23 01-284, that's marked as 626 for identification.

24 (Marked Exhibits 624, 625C and 626C.)

25 JUDGE WALLIS: Company has distributed an

03602

1 errata sheet for Mr. Purkey's testimony. That's
2 marked as 627 for identification, and AT&T has
3 distributed a revised version of response AT&T 01-076.
4 I've noted the term revised on the official copy, and
5 I also -- it's also been called to my attention that
6 the revised version in the second line of the response
7 refers to the month of December 1995, which is not a
8 part of the earlier document.

9 Finally, AT&T has also distributed response
10 No. 01-013 and that's marked as 629C for
11 identification. I believe that completes the marking
12 of exhibits for this witness.

13 (Marked Exhibit 627, 628C and 629C.)

14 MS. HASTINGS: Did you indicate that 625
15 and 626 were both marked C?

16 JUDGE WALLIS: I did on 625 and I do now on
17 626.

18 MS. HASTINGS: Thank you.

19

20 DIRECT EXAMINATION

21 BY MS. HASTINGS:

22 Q. Would you please state your name and spell
23 it and provide your business address?

24 A. My name is Dan Purkey. Last name is
25 spelled P as in purple, U R K E Y. Business address

03603

1 is 1600 Seventh Avenue, Room 3002, Seattle, Washington,
2 98191.

3 Q. Mr. Purkey, I don't want to repeat all of
4 the numbers that the judge just went through, but did
5 you prepare the direct testimony, your rebuttal
6 testimony, the various exhibits attached thereto and
7 the errata testimony with the exhibit numbers that
8 have just been identified in this record?

9 A. Yes.

10 Q. They were prepared by you or under your
11 direction and supervision?

12 A. Yes.

13 Q. To the best of your knowledge, is the
14 direct testimony and exhibits, the rebuttal testimony
15 and exhibits and your errata true and correct?

16 A. Yes.

17 Q. If I were to ask you the questions that are
18 set forth in the testimony today, would your answers
19 to those questions be the same as are set forth in
20 your testimony?

21 A. Yes.

22 MS. HASTINGS: Your Honor, I would move for
23 the admission of the exhibits that have just been
24 identified to the record, Mr. Purkey's direct
25 testimony and rebuttal testimony, his errata and the

03604

1 corresponding exhibits and make Mr. Purkey available
2 for cross-examination.

3 JUDGE WALLIS: Is there objection to any of
4 the exhibits? Let the record show that there is no
5 response and the exhibits are received. That's 54T
6 through 66 and 615T through 623 plus Exhibit 627.

7 (Admitted Exhibits 54T, 55-58, 59C, 60C,
8 61-66, 615T, 616-620, 621C, 622, 623 and 627.)

9 JUDGE WALLIS: Commission staff.

10

11 CROSS-EXAMINATION

12 BY MR. SMITH:

13 Q. Good morning, Mr. Purkey.

14 A. Good morning.

15 Q. In your rebuttal testimony, which is now
16 numbered 615T, you discuss the competitive
17 classification of intraLATA toll, and according to
18 page 43, lines 8 through 10, the evidence that you
19 present on page 42 you state seems to paint a pretty
20 convincing story that the company's intraLATA toll
21 services are effectively competitive. Do you see that
22 testimony?

23 A. Yes.

24 Q. And you take the position that even though
25 the evidence appearing on that one page of testimony,

03605

1 page 42, is sufficient to demonstrate that the
2 company's toll services passes the statutory test for
3 effective competition the company has to date, or at
4 least not since the late '80s, found it worthwhile to
5 present its case for competitive classification to
6 this Commission. Is that a fair summary of your
7 testimony?

8 A. Yes.

9 Q. And I want to review some of that testimony
10 on page 42. With respect to condition one beginning
11 on line 7 the number of and size of alternative
12 providers. Have you presented any evidence regarding
13 the size of the 142 registered providers of toll
14 service you note there?

15 A. Well, AT&T is included in that 142, which I
16 might add is now 162 based on the most current
17 information that I have from the Commission, so we have
18 anything ranging from a multi billion dollar company
19 all the way down to very small companies that I don't
20 know what the revenues are.

21 Q. And do you know how many of those providers
22 are resellers compared to facilities-based
23 competitors?

24 A. No, I don't.

25 Q. With respect to the second condition, the

03606

1 extent to which services are available from
2 alternative providers you've cited a particular
3 example there of Telephone Express' promotion; is that
4 correct?

5 A. Yes.

6 Q. Is it your testimony that Telephone Express
7 is offering a toll service that is comparable to and
8 competitive with U S WEST's toll services for a penny
9 per call anywhere within this LATA?

10 A. They're not limited to just this LATA.
11 They can provide that penny per call anywhere. I would
12 note that their penny per call is after 10 calls are
13 made then they get the 11th call for a penny.

14 Q. Is it your testimony that within this LATA
15 that they are a significant competitor to U S WEST
16 toll service?

17 A. They are a competitor. I don't know --
18 significant or not, I don't know because I don't know
19 their relative market share.

20 Q. Can you tell us what U S WEST's average
21 revenue per toll call per minute is?

22 A. That's a proprietary number.

23 Q. Would it be fair to say that it's higher
24 than a penny?

25 A. Oh, yes.

03607

1 Q. Can you explain, then, why Telephone
2 Express hasn't captured all of U S WEST's toll traffic
3 if it's offering such a low price service after 10
4 calls?

5 A. It's a fact of competitive life that in any
6 industry that a company with the lowest price is not
7 going to garner 100 percent of the market.
8 Competition varies widely and you can't just look at a
9 price and say, well, based on this low price over here
10 that company is going to be providing 100 percent of
11 the market. If that were the case all of us would be
12 driving Yugos.

13 Q. Is it your position that the pricing
14 flexibility afforded by competitive classification
15 would permit U S WEST to respond more effectively to
16 its competitors' pricing?

17 A. We would be able to establish prices more
18 quickly. We would be able to change our prices more
19 quickly, yes.

20 Q. I would like to clarify the timing of your
21 proposed toll rate reductions next. Assume with me
22 that the Commission approves the company's rate
23 proposals without modification by an order dated April
24 1 of 1996. According to your testimony the company
25 would implement its phase 1 toll rates on that same

03608

1 date; is that correct?

2 A. Or as quickly as possible thereafter.

3 Q. And when would the additional toll rate
4 reductions in phase 2 take effect?

5 A. I'm not sure of the exact timing of the
6 phase 2. I believe it would be one year after that.

7 Q. Accepting that to be the case, then by
8 April 1, 1998 in this example, the additional phase 2
9 rate reductions would have been in effect for a full
10 year and the original phase 1 reductions would have
11 been in effect for a full two years; is that correct?

12 A. Yes.

13 Q. And the company's rate change proposals
14 extend over a four year period which would end in our
15 illustration on April 1, 2000; is that correct?

16 A. Okay.

17 Q. So that after April 1, 1998, which begins
18 year 3 in the illustration, the company's toll rates
19 would continue to reflect the combined effects of
20 phase 1 and phase 2 rate reductions for another two
21 full years to April 1, 2000 when all of the company's
22 rate proposals will have been implemented; is that
23 correct?

24 A. We may make interim long distance proposals
25 in that time, and I would almost guarantee you that we

03609

1 would, but to the extent that the rates have been
2 approved and in effect those rates will be carried
3 forward or the effects of those rates will be carried
4 forward and then there would be incremental changes on
5 top of that.

6 Q. And you contend that the short run
7 elasticity factor is the correct one to use since the
8 company is estimating revenues for a single year, the
9 test year; is that correct?

10 A. Those are the regulatory requirement that
11 we're under, so yes.

12 Q. But as you have indicated the toll
13 reductions will be spread over multiple years and the
14 overall revenue impacts of the company's rate spread
15 are being evaluated at the end of a four year period;
16 is that correct?

17 A. I believe our company's -- I don't know if
18 they're going to be reevaluated at that point or not.
19 I believe that the company's proposals in this docket
20 will be looked at one year hence and the Commission's
21 requirements are that we present evidence as to what
22 the effects will be based on the test year, so it's
23 irrelevant what happens in 2000.

24 Q. Nevertheless toll rate reductions will be
25 spread over multiple years, is that correct, just

03610

1 looking at your filing on a stand alone basis without
2 any later changes?

3 A. The reductions will be in effect for
4 multiple years, yes.

5 Q. And they will be spread over multiple years
6 as well?

7 A. I'm not sure what you mean by spread.

8 Q. Well, you have phase 1 and phase 2 for
9 toll, for example?

10 A. Okay.

11 Q. We've just agreed it's your position that
12 the short-term elasticity estimate should be used
13 since we're focusing on the revenue effects of the
14 test year?

15 A. Correct.

16 Q. By definition of the short run any demand
17 and revenue effects of the rate reductions that
18 continue beyond that single year would not be
19 recognized?

20 A. In the regulatory requirement, yes.

21 Q. Would you accept subject to check or are
22 you aware that the company has at the same time
23 proposed at least three proforma adjustments all of
24 which increase its purported revenue requirement which
25 are said to be justified because they are, quote, more

03611

1 reflective of ongoing conditions, close quote?

2 A. I am not aware of proforma changes.

3 Q. Would you accept it subject to check?

4 A. Okay.

5 Q. I want to turn to to company's toll price
6 calculation. On page 44 of your rebuttal testimony,
7 with respect to the first problem with your toll price
8 recalculation which was identified by Dr. Selwyn in
9 his direct testimony --

10 A. I guess I would have to correct you that
11 the problem was not with my study. The problem was
12 with Dr. Selwyn's.

13 Q. You paraphrase him on lines 10 to 12 as --
14 I guess at line 18 you paraphrase his testimony on the
15 point and you say Dr. Selwyn recommended his first
16 adjustment because he believes the proposed MTS
17 revenues at the end of phase 1 should equal the present
18 MTS revenues at the beginning of phase 2. Do you see
19 that?

20 A. Yes.

21 Q. And as you indicate in your rebuttal
22 testimony, and I think you just repeat it here now,
23 you state that the problem is not with the numbers but
24 with the labeling. Is that fair to say?

25 A. Yes.

03612

1 Q. Can you explain your statement regarding
2 the relationship between the MTS revenue outputs from
3 phase 1 and the inputs to phase 2, line 20 where you
4 state essentially they do match but the way the model
5 is constructed caused the summary display to appear as
6 if they don't?

7 A. Yes. The outputs from phase 1 include the
8 effect of operator surcharges, so that we can take a
9 look at the revenue effect of making those changes.
10 When we go back into the reprice model, the way it's
11 constructed is that it only looks at the MTS revenues,
12 period, not MTS revenues plus operator surcharges
13 revenues because what we are pricing are the revenues
14 associated with MTS not the revenues associated with
15 the operator handled surcharges, so the output from
16 phase 1, which is a combination of MTS and operator
17 surcharges, needs to have the operator surcharges
18 taken out so that we can then reprice those MTS only
19 revenues.

20 Q. Can you indicate where in your work papers
21 that calculation of backing out the operator handled
22 surcharge has been done?

23 A. Well, I guess the calculation is shown in
24 the difference between the output of phase 1 and the
25 input of phase 2.

03613

1 Q. Do your work papers contain any discussion
2 of the fact that that step is necessary, about backing
3 out the operator handle surcharge?

4 A. No, they don't.

5 Q. Now, for the independent LEC MTS revenues,
6 isn't it true that the phase 1 output and the phase 2
7 input values do in fact match?

8 A. I accept that subject to check.

9 Q. And can you explain why no backout
10 adjustment was necessary for the independent LEC
11 revenues?

12 A. My assumption is that the analyst who did
13 this did not have operator surcharge revenues included
14 in the independent company revenues.

15 Q. If there are no operator handled surcharge
16 revenues associated with the independent LEC toll,
17 then the high LEC section of the work papers is also
18 misleadingly labeled, isn't it, since it says, quote,
19 MTS schedule without operator handled surcharge?

20 A. It may be.

21 Q. Turning to the Washington value calling
22 plan, page 45. You state there that there's no need
23 for consistency between the phase 1 outputs and the
24 phase 2 inputs since the phase 2 calculations are
25 entirely for new customers migrating from MTS not

03614

1 WCVP customers assumed in phase 1; is that correct?

2 A. Correct.

3 Q. Does your work paper take into account the
4 change in revenues incurred as the existing phase 1
5 WCVP customers transition to the lower phase 2 rates?

6 A. It accounts for the new rates that would be
7 involved but that's the extent of it as far as the
8 effects on phase 1 customers.

9 Q. Last week I don't recall whether you were
10 here when Mr. Farrow indicated that independent
11 company revenues accounted for about 10 percent of the
12 company -- total company test year revenues and he
13 deferred some questions to you. Do you in your
14 testimony or exhibits show the amount of test year
15 revenues associated with independent companies?

16 A. In the reprice model they do.

17 Q. Are they separately provided in the reprice
18 model?

19 A. I believe so.

20 Q. Are they indicated as such?

21 A. This is a very involved complex document,
22 and I am not sure we're going to be able to follow
23 completely, but at page 2 of the backup that we had
24 provided there is a separate line item for ILEC with a
25 pre price of MTS, changes in costs and that sort of

03615

1 thing with ILEC separately identified.

2 Q. And would we be able to verify the 10
3 percent that Mr. Farrow referred to from the backup
4 material you're talking about?

5 A. If you look at the page that is labeled
6 backup 1, that shows what the test year base revenues
7 were for U S WEST as well as ILEC, and based on that it
8 appears that 10 percent is too low.

9 MS. HASTINGS: Steve, would it be helpful,
10 I'm not sure that we agree that that's exactly what
11 Mr. Farrow said. Maybe we could look at that over the
12 lunch hour and Mr. Purkey could clarify it for you at
13 that time.

14 MR. SMITH: I think that would be helpful.
15 We're just trying to verify the 10 percent and --

16 MS. HASTINGS: I'm not exactly sure he
17 answered the question you asked. I'm not suggesting
18 he didn't. We'll check it for you.

19 MR. SMITH: That will be fine.

20 Q. Mr. Purkey, do you have before you your
21 deposition in this proceeding which has now been
22 identified as Exhibit 624?

23 A. Yes.

24 Q. And do you recognize that as the deposition
25 that was taken of you in this room in July of last

03616

1 year?

2 A. I do. There is one correction I would have
3 in that deposition and I don't know if it's
4 appropriate to do so now.

5 Q. Why don't you go ahead and do that.

6 A. At page 74, line 21 -- I'm sorry, line 24,
7 the answer should be yes.

8 MR. SMITH: Your Honor, I would move for
9 admission of those portions of Exhibits 624 included
10 in pages 1 through 5 and 50 through 89.

11 JUDGE WALLIS: Is there objection?

12 MS. HASTINGS: We'll object on the same
13 basis that Mr. Owens identified earlier in connection
14 with Mr. McDonald's testimony.

15 MR. TROTTER: I thought the objection was
16 to portions -- to not identify portions and Mr.
17 Smith did identify a portion but I will make her
18 objection good by offering the entire exhibit. I have
19 reviewed this again and it is pertinent to the
20 testimony and would meet the purpose of the rules from
21 our perspective and we did notify the company that
22 this was a deposition that we would offer.

23 JUDGE WALLIS: Very well. Again having the
24 arguments in mind the objection is overruled and the
25 exhibit is received.

03617

1 (Admitted Exhibit 624.)

2 MS. PROCTOR: Can I ask for clarification?

3 Is that the entire deposition?

4 MR. TROTTER: Yes.

5 MR. SMITH: Your Honor, those complete my

6 questions unless something occurs from our

7 conversations during the noon hour might generate a

8 further question.

9 JUDGE WALLIS: Very well. You anticipated

10 my question which was would this be an appropriate

11 time for a break.

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

13

14

15

16

17

18

19

20

21

22

23

24

25

03618

1 AFTERNOON SESSION

2 1:45 p.m.

3 JUDGE WALLIS: Let's be back on the record,
4 please, following our noon recess. We are engaged in
5 the examination of Mr. Purkey, and my recollection is
6 that staff had completed its examination and we were
7 moving on to other parties at this time. Mr. Trotter,
8 do you have questions.

9 MR. TROTTER: No.

10 JUDGE WALLIS: Ms. Proctor.

11 MS. PROCTOR: Yes, thank you.

12

13 CROSS-EXAMINATION

14 BY MS. PROCTOR:

15 Q. Good afternoon, Mr. Purkey.

16 A. Good afternoon.

17 Q. You said in your testimony that you're a
18 director of product and market issues. Could you just
19 briefly describe for us what your responsibilities
20 are.

21 A. My responsibilities are to represent the
22 long distance product management team in regulatory
23 forums. Also to look at imputation studies and
24 provide or act as a general internal consultant to U S
25 WEST on imputation issues.

03619

1 Q. Several of the other witnesses who have
2 indicated a similar title indicate that they also sit
3 on product teams. Is that true for yourself as well?

4 A. I don't sit on a product team per se. What
5 I do do is attend monthly meetings for what we call a
6 toll activity update meeting. In that meeting we
7 discuss what general proposals are coming up,
8 implementation issues for those proposals and that
9 sort of thing.

10 Q. Do you also discuss marketing strategy for
11 the various toll products?

12 A. Strategies are occasionally discussed.
13 Generally by the time those issues get to the toll
14 activity update meeting it is in fact an update of
15 decisions that have been made prior to that meeting.

16 Q. In your testimony I believe you indicated
17 in response to Mr. Smith's questioning this morning
18 you're now indicating that there are 162 providers of
19 toll service in the state of Washington?

20 A. Yes.

21 Q. And that's intrastate intraLATA toll?

22 A. It makes no difference from -- the only
23 intraLATA restriction is on U S WEST, not on any of
24 its competitors.

25 Q. Are you able to tell whether any of the

03620

1 other competitors or whether all of those 162 are
2 offering intraLATA service?

3 A. To the extent that they have a CIC code, a
4 carrier identification code, then yes, they would be
5 offering those services.

6 Q. Do all 162 of the other competitive service
7 providers have CIC codes?

8 A. To the best of my knowledge they do.

9 Q. You've indicated in addition that there are
10 59 alternative operator services and pay phone
11 providers?

12 A. Yes.

13 Q. You also in your direct testimony on page
14 5, and I believe you changed some of these numbers but
15 at that point you indicated that U S WEST had been
16 tracking the 10 XXX dialing. Is that a correct
17 summary?

18 A. Yes.

19 Q. Is it also correct that that tracking
20 aggregates all 162 of these toll providers as well as
21 the AOS and pay phone providers?

22 A. It's any call that was dialed using a 10
23 XXX call. To the extent that AOS providers use one of
24 the 162 competitive long distance companies for their
25 long distance, then it would show up as a result of

03621

1 the 162 as opposed to the AOS provider, but it's a
2 tracking of any call that's dialed with a 10 XXX code.

3 Q. And that's from any phone within U S WEST
4 territory?

5 A. Yes.

6 Q. Now, I believe you've indicated in your
7 deposition that this information is extracted from the
8 AMA tapes; is that correct?

9 A. Yes.

10 Q. And what are the AMA tapes?

11 A. Those are the automatic message accounting
12 tapes. Those are the source or the original recording
13 of a long distance call. From there the information
14 or the data is distributed to other downstream
15 reports, but the AMA tape is the source tape.

16 Q. Would it be a source of the recording that
17 is provided to the interexchange carriers in order for
18 them to do billing of their customers?

19 A. Yes.

20 Q. And is that same service also provided to
21 the AOS and pay phone providers?

22 A. I don't -- it depends on the contractual
23 arrangements that they have with U S WEST.

24 Q. You're saying you don't know what those
25 arrangements are?

03622

1 A. If they have such arrangements then the AMA
2 tapes would be recording those calls. If they don't
3 then they wouldn't.

4 Q. Is it fair to say, then, that the AMA tapes
5 are the source of bill detail for a particular
6 customer?

7 A. The ultimate source, yes.

8 Q. So it's going to have the originating call
9 -- the originating number, the terminating number, the
10 call length, all of that type of information that is
11 typically included in an end user customer's bill?

12 A. Yes.

13 Q. And I believe you've indicated also that
14 that information as it originally comes off the switch
15 includes both interLATA and intraLATA calls; is that
16 correct?

17 A. Yes.

18 Q. And I think you've also indicated that at
19 this point in time anyway the person aggregating the
20 data is just throwing out the interLATA data because
21 U S WEST is not currently interested in that data; is
22 that correct?

23 A. It's not applicable for the 10 XXX tracking
24 that we're doing in our competitive market if that's
25 what you mean by not interested.

03623

1 Q. But the information for interLATA calling
2 is available in this detail, is it not?

3 A. I believe so, but I haven't got any personal
4 knowledge of that.

5 Q. Currently U S WEST does not bill AT&T end
6 user customers for long distance usage; is that
7 correct?

8 A. We have and we haven't off and on through
9 the years, and to tell you the truth I'm not sure what
10 the current state of that is. We may be billing for
11 incidental usage, but again, I'm not sure.

12 Q. So you don't know whether AT&T has taken
13 back all of its billing from U S WEST?

14 A. I know that that was AT&T's announced
15 intention to do that. I don't know if that's actually
16 been completed and implemented at this point.

17 Q. This information on 10 XXX that you state
18 is aggregated, would it be fair to say that U S WEST
19 has expended significant time and money in gathering
20 and tracking this information?

21 A. I'm not sure what you mean by significant.

22 Q. Leaving out the definition of the term
23 significant, would it be fair to say that U S WEST has
24 expended time and money in gathering this information?

25 A. Certainly.

03624

1 Q. Would it also be fair to say that this data
2 provides a complete picture of the current U S WEST
3 toll market?

4 A. No. It's an understatement. I believe in
5 my rebuttal testimony at page 15 --

6 Q. Well, if I could back up?

7 A. -- on lines 14 through 15 I say that I must
8 caution the Commission and other readers that this
9 data is understated, perhaps significantly, a point
10 that should not be overlooked.

11 Q. In response to a data request in Utah would
12 it surprise you to hear that -- someone from U S WEST
13 that this particular 10 XXX data provides a complete
14 picture of the current U S WEST toll market?

15 A. Yes, that would surprise me.

16 Q. Would you also agree that competitors of
17 U S WEST would be able to determine the success of
18 their marketing efforts by examining this data?

19 A. They would be able to get an indication of
20 the success of their marketing efforts but they would
21 not be able to get a 100 percent analysis. As I've
22 stated in my testimony on page 15, there are a number
23 of different ways to implement or connect a call among
24 which are feature group A, feature group B, private
25 line networks, high capacity connections directly

03625

1 between carriers and high volume customers, a WATS
2 service, 800 service. So there are a number of ways
3 that -- if you're looking at the whole toll market
4 there are a number of ways that calls can be made and
5 the 10 XXX date is simply a subset of that entire
6 market.

7 Q. Mr. Purkey, we have marked three exhibits
8 and of course perversely enough they're in reverse
9 order. If we start with what has been marked as
10 Exhibit 629C, and that is response to public counsel's
11 data request No. 01-013. Do you have that in front of
12 you?

13 A. Yes, I do.

14 Q. And it says it was not prepared by you but
15 it purports to be the work papers that you used in
16 preparing in your direct testimony. Is that accurate?

17 A. Yes.

18 Q. And then we have what has been marked as
19 Exhibit 625C. That is response to -- the original
20 response to AT&T data request 01-076. Is that correct?

21 A. I don't have that one in front of me but I
22 can accept that, yes.

23 Q. Perhaps your counsel could share that with
24 you. And then finally we have Exhibit 628C, which is
25 the revised response to Exhibit 176 -- I'm sorry,

03626

1 01-076. Do you have Exhibit 628, Mr. Purkey?

2 A. Yes, I do.

3 Q. Is that the correct response to the question
4 posed by AT&T?

5 A. Yes.

6 MS. PROCTOR: Your Honor, I would move the
7 admission of Exhibits 625C, 628C and 629C.

8 JUDGE WALLIS: Is there objection?

9 MS. HASTINGS: No.

10 JUDGE WALLIS: There being no objection the
11 exhibits are received.

12 (Admitted Exhibits 625C, 628C, 629C.)

13 Q. Now, Mr. Purkey, the response to the public
14 counsel request, that was the data upon which you
15 based your direct testimony; is that correct?

16 A. Yes.

17 Q. And that represents information from August
18 of '93 to December of '94. Is that accurate?

19 A. Yes.

20 Q. Now, I noticed you characterized these --
21 this is 10 XXX calling; is that correct?

22 A. Yes.

23 Q. And you characterized that as bypass?

24 A. It's a label. The bypass contains no
25 significance. It's only calls that were tracked using

03627

1 a 10 XXX code. To the extent that the 10 XXX code
2 does not use U S WEST, from our standpoint our network
3 is being bypassed.

4 Q. Of course every one of those toll providers
5 is paying U S WEST access on those toll calls, aren't
6 they?

7 A. Not for all calls, no.

8 Q. On a 10 XXX call that your network is
9 tracking you're saying that some of these providers
10 do not pay access charges?

11 A. They will pay access charges in varying
12 amounts depending on the degree that they have their
13 own facilities, for example, for local transport.
14 Also depending on the degree that they interconnect
15 with, for example, ELI and TCG as startup companies.

16 Q. So if I understand your testimony you're
17 saying that this traffic, which was measured, if I
18 understood you correctly, at a U S WEST switch is
19 somehow not using other U S WEST facilities for
20 switched access. Is that accurate?

21 A. In some cases, yes. For example, a call
22 that's dialed 10 ATT or 10288 would be routed to
23 AT&T's point of presence or POP. If that call is
24 going from Seattle to Tacoma -- let's say, AT&T has
25 its own facilities from Seattle to Tacoma -- AT&T will

03628

1 route that call over its own facilities from Seattle's
2 POP to Tacoma's POP thereby not incurring any charges
3 for local transport from U S WEST for that distance
4 between Seattle and Tacoma.

5 Q. But of course that portion of the
6 connection, if you will, between the end user customer
7 and AT&T -- and U S WEST on both ends is provided by
8 U S WEST, is it not?

9 A. If a Tacoma customer is calling Seattle and
10 that Tacoma customer is calling a customer of ELI or
11 TCG, U S WEST will not be terminating that call.

12 Q. Now, I notice in Exhibit 629C that there's
13 no distinction between residential and business calls;
14 is that correct?

15 A. That's correct.

16 Q. And also in this document would it be fair
17 to say that included in here would be calls not only
18 in the case of AT&T on its 10288, which is its primary
19 code, but also on 10732?

20 A. Any calls that are dialed with a 10 XXX
21 pattern are contained in this document.

22 Q. So to the extent that those are AT&T
23 software defined network used by companies reselling
24 AT&T service that would be reflected in this aggregate
25 number?

03629

1 A. Yes, if those calls were dialed using a 10
2 XXX code.

3 Q. And similarly the FTS 2000 calls that are
4 dialed using a 10 XXX convention are included in here?

5 A. Same answer.

6 Q. And of course all the operator handled and
7 card calls that dial 10288 or 10 XXX would be included
8 in this number.

9 MS. HASTINGS: I think that's been asked
10 and answered. I think he said it's any call with a 10
11 XXX dialing pattern.

12 JUDGE WALLIS: Is that correct, Mr. Purkey?

13 THE WITNESS: Yes.

14 MS. PROCTOR: Thank you.

15 Q. Now, in the original response to AT&T's
16 data request No. 76, which is Exhibit 625C, at this
17 point the calling has now been broken out into business
18 and residential. Can you tell me how that designation
19 was made?

20 A. Depends on how the customer is programmed
21 into our switch, whether they are a residence customer
22 or a business customer.

23 Q. So, for example, if Mr. Waggoner from his
24 residence uses his credit card that would show up as a
25 residence call even though it might be for business

03630

1 purposes?

2 A. Yes. U S WEST has no way of knowing the
3 content of the calls. We just track based on how the
4 local service is provided.

5 Q. And then by the revised response, which is
6 Exhibit 628C, I see we have residence, business and
7 unknown. Would it be fair to say that unknown means
8 you have no way of identifying what it is or could you
9 perhaps explain what unknown is supposed to encompass?

10 A. They are unknown. We did not have either a
11 residence or business denominator on there as far as
12 what type local service they had for whatever reasons.

13 Q. Now, I also noticed that on page 2 of this
14 response we also show pay phone bypass. How were you
15 able to determine pay phone bypass?

16 A. By the -- we know the telephone numbers of
17 our pay phones or public access lines and so those
18 minutes would get lumped into that category.

19 Q. Now, these are pay phones of competitors of
20 U S WEST; is that correct?

21 A. Or U S WEST. It's any call that is made
22 with a 10 XXX code is included in this study.

23 Q. No, I'm sorry. In the column labeled pay
24 phone bypass?

25 A. Yes. That would be a pay phone either U S

03631

1 WEST's or a competitor's using a 10 XXX code. For
2 example, I recently made a long distance call from a
3 U S WEST pay phone and dialed 10333, which is the code
4 for Sprint. That call, or those minutes would have
5 shown up on this Sprint under pay phone bypass minutes.

6 Q. Now, in the original response, which
7 included some of this '94 data, neither business nor
8 residence nor unknown nor pay phone were designations,
9 and in fact as recently as the response to -- the
10 original response to AT&T's data request, the
11 designations of unknown and pay phone were not broken
12 out. Just when were those further refinements made?

13 A. I can't tell you exact dates. I can just
14 give you the times in between and that would be the
15 breakout between biz and res was made sometime between
16 December of '94 and June of '95, and then the breakout
17 for the pay phone was made -- actually that was just
18 made recently within the last few weeks.

19 Q. And what was the reason that pay phone was
20 broken out?

21 A. When I was down there observing the
22 hearings a couple of weeks ago Mr. Trotter asked some
23 questions regarding pay phones and seemed to be
24 attempting to make a case, or I believe that he was
25 attempting to make a case that most of these calls

03632

1 were being made from pay phones and they weren't
2 reflective of actual business or residence calling.
3 As a result of AT&T's dial one-oh-ATT campaign so what
4 I wanted to do was head off that impression that might
5 be left that AT&T's dial one-oh-ATT campaign was
6 focused primarily on pay phones as opposed to the
7 actual residence market.

8 Q. And was the breakdown between business and
9 residence done in response to your hearings in
10 Colorado when AT&T stated that your numbers did not
11 reflect just residential customers?

12 A. No. The Colorado numbers I believe were
13 originally split by business and residence so this was
14 just -- the formats of the reports for all 14 of our
15 states fell into the split of business and residence.

16 Q. How many people does it take to do these
17 studies, Mr. Purkey?

18 A. I only interface with one person but I know
19 that she has had contacts with a couple of different
20 groups but essentially it takes one person.

21 Q. And then I noticed in your response in Utah
22 that this information is provided to certain of the
23 product managers. Who exactly is this information
24 provided to of the product managers?

25 MS. HASTINGS: Excuse me. What response in

03633

1 Utah of Mr. Purkey's are we referring to?

2 MS. PROCTOR: I can ask the question
3 without the reference to Utah.

4 Q. Is this information provided to product
5 managers at U S WEST?

6 A. I believe it may be. I don't personally
7 provide it to them.

8 Q. And which product managers do you believe
9 it to be provided to?

10 A. Product managers associated with long
11 distance product, for one. It's probably also
12 provided to product managers for the carrier market
13 unit. I know that -- well, I guess the cost people
14 aren't exactly product managers so I guess that might
15 be the limit of product management that would see it.

16 Q. And the product managers, for example, for
17 the toll products are responsible for marketing of the
18 U S WEST toll product; is that correct?

19 A. Yes.

20 Q. Mr. Purkey, were you made aware of a letter
21 from U S WEST to AT&T representing that information
22 contained by U S WEST as a carrier's carrier would not
23 be provided to the U S WEST marketing people?

24 A. I believe that was on company specific
25 information not on an aggregated basis.

03634

1 Q. So it would be your testimony that the only
2 information that would have to be protected would be,
3 for example, AT&T's specific 10 XXX traffic, is that
4 fair?

5 A. Yes. That's why this -- if we only had
6 percentages on here, on these three exhibits, the
7 exhibits would not be confidential. As a matter of
8 fact, in my testimony those percentages are
9 represented as nonconfidential numbers. The only
10 reason that confidentiality exists is because of the
11 actual minutes and messages that are on there
12 associated with U S WEST.

13 Q. In the situation would you agree that U S
14 WEST is in a fairly unique position of having the
15 precise minutes of use for every one of its toll
16 competitors?

17 A. Well, I guess we don't -- we have the
18 precise minutes of use associated with 10 XXX traffic.
19 What we don't have is the precise minutes of use for
20 those companies in total. So that's why when I say
21 that the long distance market share of the competitors
22 is probably in the range of 20 to 25 percent, it can
23 only be estimated based on what we know to be the fact
24 for 10 XXX plus some fudge factor for other types of
25 traffic that we don't track on 10 XXX.

03635

1 Q. And this information that U S WEST
2 possesses on all of its competitors AT&T, for example,
3 doesn't have access to that type of information, does
4 it?

5 A. AT&T has access to the percentages that I
6 have provided.

7 Q. And what percentages are you talking about?

8 A. The percentages that would be contained in
9 my rebuttal testimony on page 15, lines 21 through 27.

10 Q. And by that --

11 A. Any other competitor would also have access
12 to that because these percentages are not confidential
13 numbers.

14 Q. I'm sorry. Which percentages are you
15 talking about? The ones in your testimony?

16 A. Yes. In my rebuttal testimony, page 15,
17 lines 21 through 27.

18 Q. And that data is aggregated, is it not?
19 It's not broken down by specific competitors?

20 A. Correct.

21 Q. Mr. Purkey, you're familiar with the action
22 by U S WEST in this state in establishing a promotion
23 in mid June of '95 reducing MTS price, are you not?

24 A. Yes.

25 Q. And would you agree that on an annualized

03636

1 basis that represented a reduction of approximately \$9
2 million?

3 A. I'm not exactly familiar with what the
4 projected amount was, but I believe that's in the
5 ballpark.

6 Q. And is it approximately the same size
7 reduction as U S WEST is proposing in this case?

8 A. No, it's smaller.

9 Q. Smaller?

10 A. Yes.

11 Q. I'm sorry. The promotion was smaller?

12 A. Yes.

13 Q. And at the time that U S WEST proposed that
14 promotion, there was no offsetting increase to any
15 other rates, was there?

16 A. Correct.

17 Q. And was that promotion introduced in
18 response to AT&T's 10 XXX campaign?

19 A. Primarily, yes.

20 Q. And at the time that U S WEST established
21 or filed the promotion AT&T was promoting its prices
22 as being 10 percent below U S WEST, was it not?

23 A. Yes.

24 Q. And with the proposed promotional prices
25 AT&T's rates would not have been 10 percent below U S

03637

1 WEST, would they?

2 A. Correct.

3 Q. And after U S WEST filed its promotion AT&T
4 stopped its advertising, did it not?

5 A. I'm not sure what the timing on that was.

6 Q. And despite the fact that the promotion was
7 filed for six months it was withdrawn after about
8 three months, was it not, the U S WEST promotion?

9 A. That's correct.

10 Q. So that would have returned the U S WEST
11 toll prices to their original levels; is that correct?

12 A. Yes.

13 Q. And there wasn't any decrease in carrier
14 access charges during this time period, was there?

15 A. No.

16 Q. I would like to turn attention just for a
17 minute to your proposed toll reductions in this case.
18 You're proposing toll reductions of about \$23 million
19 in phase 1; is that correct?

20 A. That's correct.

21 Q. And Dr. Wilcox is proposing access
22 reductions of six and a half million dollars in that
23 same phase 1; is that correct?

24 A. There are reductions. I'm not sure what
25 the dollar level is of those.

03638

1 Q. In your testimony you compared the
2 percentage of growth in access to the percentage of
3 growth in toll, did you not?

4 A. Right.

5 Q. U S WEST toll service is almost three times
6 the size of the interexchange carriers' switched
7 access service, is it not?

8 MS. HASTINGS: When you say three times the
9 size, what size are you referring to?

10 MS. PROCTOR: Well, we can refer to minutes
11 or revenues, whichever you would prefer.

12 A. What are you asking me to compare again?

13 Q. I'm asking you to agree that U S WEST toll
14 service measured either in revenues or minutes of use
15 is approximately three times the size of the
16 interexchange carriers' switched access?

17 MS. HASTINGS: So we're clear, you're
18 asking him to compare the U S WEST toll service
19 revenue is three times the number or the revenue
20 associated with access charges?

21 MS. PROCTOR: Yes, that would be fine.

22 A. Did you ask for revenue or for minutes?

23 Q. Revenues would be fine.

24 A. Well, that's an apples to oranges
25 comparison. The switched access prices are much less

03639

1 than the long distance prices, so you get a
2 meaningless comparison by that.

3 Q. Well, Mr. Purkey, you're the one who made
4 the comparison of switched access and toll growth?

5 A. Based on minutes not on revenue, and that's
6 exactly why I did it on minutes because revenue would
7 be an apples to oranges comparison.

8 Q. Well, then look at minutes. U S WEST toll
9 minutes are substantially larger than the
10 interexchange carriers' switched access minutes, are
11 they not?

12 A. Based on the backup to my exhibit 55, which
13 was provided in response to staff's request 154, those
14 minutes are actually pretty comparable.

15 Q. And for what time period is that?

16 A. I provided five years worth of data. Pick
17 any year that you want.

18 Q. In your toll reductions, Mr. Purkey,
19 looking at your Exhibit DP-2, which is Exhibit 56,
20 most of the reduction is for MTS and the optional
21 calling plans, is it not?

22 A. Yes.

23 Q. In fact only about 200,000 of the reduction
24 is for 800 service?

25 A. Correct.

03640

1 Q. And I believe in your deposition you stated
2 that for U S West 800 service was a dying service and
3 it wasn't worth the effort of trying to lower prices?

4 A. 800 service, yes. Let's not confuse that
5 with 800 service line, which is a different product.

6 Q. And finally, you stated in response to a
7 data request from staff that in order to provide
8 imputation studies following the Commission approved
9 methodology that that would require a special study,
10 did you not?

11 MS. HASTINGS: Can we get a clarification
12 of what staff data request we're talking about?

13 MS. PROCTOR: Certainly. We're talking
14 about WUT 01-162. I believe the witness has just
15 indicated that he was familiar with that response.

16 Q. The methodology that you used in preparing
17 your imputation studies in this case, Mr. Purkey, is
18 that the same methodology that you recently used in
19 Oregon, basically the same approach? I realize the
20 numbers would have been different.

21 A. Well, I'm assuming that you're talking
22 about the Oregon docket UM 351, and yes, the general
23 methodology would be the same.

24 Q. And also in CP-1 in Oregon?

25 A. CP-1 was an interconnection docket and

03641

1 didn't involve long distance products. The long
2 distance imputation is completely different than the
3 local service/interconnection imputation.

4 MS. PROCTOR: Thank you. Nothing further.

5 JUDGE WALLIS: Mr. Nichols.

6 MR. NICHOLS: If I could just take a moment
7 and see if all my questions have been dealt with. I
8 have no further questions.

9 JUDGE WALLIS: Mr. Finnigan.

10 MR. FINNIGAN: Thank you.

11

12 CROSS-EXAMINATION

13 BY MR. FINNIGAN:

14 Q. Good afternoon, Mr. Purkey.

15 A. Good afternoon.

16 Q. My name is Rick Finnigan and I represent
17 the Washington Independent Telephone Association. I
18 want to ask you a question, and I apologize I wasn't
19 here when the exhibits were -- I think they were
20 re-marked. It's DP-12?

21 A. Yes.

22 Q. And so we all know, do you happen to know
23 what the exhibit number is for that, please?

24 A. 66.

25 Q. It wasn't renumbered. 66, thank you. If

03642

1 you look at page 19 of that exhibit?

2 A. Okay.

3 Q. And there's a sentence that's underlined
4 and in bold face type that reads, "The ILEC sets the
5 rates for its originating toll services not U S WEST."
6 Do you see that sentence?

7 A. Yes.

8 Q. I would like to be sure that I understand
9 the meaning of that sentence.

10 A. Okay.

11 Q. Is it your intent in this sentence that if
12 an independent company were to file a stand alone toll
13 discount rate for originating traffic from its
14 exchange, in today's environment everything else would
15 remain the same and that rate would go into effect?

16 A. My response is, yes, and what I was looking
17 for here is the order, the 18th supplemental order in
18 docket U-85-23, and on page 23 the Commission
19 specifically sets out the statement that says, "as
20 designated carrier, PNB" -- that's now U S WEST --
21 "will file intraLATA toll tariffs in which other local
22 exchange companies may but are not obligated to
23 concur."

24 Q. So if an independent company were to follow
25 the suggestions set out here in your tariff and

03643

1 tomorrow file a stand alone discount toll rate, U S
2 WEST would not object to that toll rate. It would go
3 into effect and everything else about the relationship
4 between that company and U S WEST would remain the
5 same?

6 A. I don't know if the relationship would
7 remain the same. Certainly when GTE did that the
8 relationship changed with GTE, so -- but I guess the
9 point is that GTE was able to do that. There's no
10 reason why any other independent company couldn't do
11 that also.

12 Q. Mr. Purkey, that's sort of my confusion. I
13 don't know whether you're saying that a company can, as
14 in my hypothetical, file a stand alone toll discount
15 plan or it has to go through everything that GTE did to
16 become a primary toll carrier. Now, there's a vast
17 distinction between those two, and that's where my
18 confusion lies so what is it that you mean by that
19 sentence?

20 A. And I don't know the legal necessities of
21 what the independent companies would have to go
22 through to do that, whether it would require them to
23 become a primary toll carrier. All I know is that the
24 Commission's order is clear that the independent
25 companies are not obligated to concur in U S WEST

03644

1 rates, so that would indicate to me that they could
2 change those rates tomorrow if they wanted to.

3 Q. So you're suggesting that we file that
4 tariff and see what happens?

5 A. I'm suggesting that, yes.

6 Q. You would agree that if what you mean by
7 that sentence is that a company has to go through the
8 process of becoming a primary toll carrier that's
9 quite different than amending its concurrence in U S
10 WEST toll rates?

11 A. It is but I don't know if they would have
12 to go through the whole process to become a primary
13 toll carrier.

14 Q. What is U S WEST's position that you
15 reflect in that testimony?

16 A. U S WEST position is that it's the
17 independent company's toll. They can do with it as
18 they will, which is exactly why those expenses
19 associated with independent originating toll should
20 not be included in an imputation test for U S WEST's
21 toll product.

22 Q. So as far as U S WEST is concerned, an
23 independent company could file that stand alone toll
24 discount plan and that would be fine with U S WEST?

25 A. Yes.

03645

1 Q. And U S WEST would not put any additional
2 requirements on that independent company?

3 A. I can't speak to that.

4 Q. Are you aware of what GTE of the Northwest
5 had to do in order to become a primary toll carrier?

6 A. I was involved to a certain extent in that
7 docket, and yes, I am aware of some of the things that
8 they had to go through.

9 Q. You would agree that that was a fairly
10 extensive docket?

11 A. Yes.

12 Q. And the company had to do extensive cost
13 studies?

14 A. Yes.

15 Q. Company had to produce an imputation
16 analysis?

17 A. Yes.

18 Q. The company had to deal with requests from
19 the -- or initiatives from the interexchange carriers
20 related to their company access charges?

21 A. Yes.

22 Q. That the company had to respond to U S
23 WEST's request that they redo the private line
24 arrangement and go to meet point on private line?

25 A. Yes.

03646

1 Q. And one of the requests that is being acted
2 on today was from U S WEST, the industry go to actuals
3 and go away from TO ratios?

4 A. Yes, but I guess the point is that, again,
5 first I go back to my statement that --

6 Q. Excuse me. I don't have a question
7 pending.

8 A. I'm still trying to respond to a question.

9 Q. The question calls for a yes or no answer.

10 A. I was trying to clarify that yes or no.

11 Q. Please do.

12 A. Now I lost my train of thought.

13 Q. Well, in that case --

14 A. I'm not done with my answer. I go back to
15 my previous answer that I don't know that it's
16 necessary for an independent company to go through
17 that process that GTE did in order to set separate
18 rates, but my second point would be that GTE did in
19 fact go through that process and did in fact do all of
20 that and did in fact take their toll back, so it's not
21 an insurmountable thing that you're talking about
22 doing.

23 Q. Do you think that's a practical process for
24 a company that serves a thousand access lines?

25 A. Again that process may not be required of a

03647

1 company that serves a thousand access lines.

2 Q. But you don't know whether it would or
3 wouldn't be or whether U S WEST would take the
4 position that it is required?

5 A. I don't know.

6 Q. I suppose Mr. Shaw would be the one to
7 respond to that question.

8 MR. SHAW: I'm not a witness.

9 Q. There is another area that's somewhat
10 related to this if I could talk to you about it. Are
11 you aware of the origin of toll pack?

12 A. Generally.

13 Q. Would you agree with me that the origin was
14 in 1978/79 time frame when six independent companies
15 filed their own minute WATS tariffs and that U S WEST
16 filed complaints claiming that they couldn't do that
17 and then as a result of that process toll pack was
18 offered by U S WEST in settlement of those filings?

19 A. I am not aware of any of that, and again
20 the environment would be completely different back in
21 1978 than it would be today.

22 Q. I didn't ask you to compare the
23 environment. I asked you if you knew the origin of
24 toll pack?

25 A. Apparently not, if that's the origin.

03648

1 Q. Would you accept that subject to check?

2 A. Okay.

3 Q. So apparently in that day and age U S WEST
4 did object to independents filing their own toll rate
5 discount plan?

6 A. Based on your representation.

7 Q. In your testimony related to toll pack you
8 say that it was designed to relieve EAS pressure. Do
9 you have that testimony in mind?

10 A. Yes.

11 Q. You pointed out that the environment in
12 1978 and '79 was different than it is today. Have you
13 done any demand studies for extended area service that
14 would let you know what the demand for EAS was at that
15 time versus demand for EAS today?

16 A. No.

17 Q. Do you know the penetration rates or the
18 take rates for toll pack in independent company
19 territory?

20 A. Again, that's independent company -- it's
21 an independent company service. The independent
22 companies do not share that information with U S WEST,
23 so therefore, again, it just demonstrates that the
24 independent company toll is independent company toll
25 not U S WEST and so it should not be included in an

03649

1 imputation study.

2 Q. Let's break that down into two parts.

3 First of all the toll pack service is offered through
4 U S WEST tariff; is that correct?

5 A. The rate design is set out in U S WEST
6 tariff, but it is the independent company that concurs
7 in that tariff, so it's the independent company
8 service.

9 Q. Does U S WEST have any subscribers that
10 subscribe to toll pack?

11 A. Yes.

12 Q. So it is a service that U S WEST offers?

13 A. Yes.

14 Q. Are you aware, Mr. Purkey, that in the
15 reports that the independents deliver to U S WEST as
16 part of toll pack they report through the number of
17 nonrecurring charges on a monthly basis the number of
18 subscribers?

19 A. I am not aware of that. I am not aware
20 that that's separately broken out.

21 Q. Would you accept that subject to your
22 check, please.

23 A. Okay, but it would not be useful in an
24 imputation study.

25 Q. I'm not asking about imputation. I'm

03650

1 asking about toll pack?

2 A. Okay, but we're in the section of my
3 imputation thing. That's why I thought it was all
4 related back to that.

5 Q. I want to talk to you a little more about
6 toll pack. Do you know the gross revenue per message
7 for toll pack? The reason I ask --

8 A. I can find it for U S WEST services. I
9 don't know it offhand, but in my exhibit --

10 Q. Your exhibits are on a per minute basis. I
11 asked specifically on per message?

12 A. On per message basis I could find the
13 number, but I don't have it right at the top of my
14 head.

15 Q. And it's not in your testimony, is it?

16 A. It's in responses to data request, but it's
17 not in my testimony.

18 Q. On the toll pack offering a subscriber can
19 subscribe to toll pack for an exchange which is not
20 contiguous to the home exchange; is that correct?

21 A. As long as it's within 40 miles.

22 Q. And that's the only limitation as far as
23 which exchange?

24 A. Yes.

25 Q. And as you just said the routes can be up

03651

1 to 40 miles in length?

2 A. Right, unless it's a contiguous exchange
3 that has a distance involved greater than 40 miles.

4 Q. And just so the record is clear, is that
5 contiguous exchange in or out? Can you subscribe to
6 that contiguous exchange even though this has a route
7 in excess of 40 miles?

8 A. You can subscribe to any contiguous
9 exchange regardless of distance and if it's a
10 noncontiguous exchange it has a 40 mile limitation on
11 it.

12 Q. Are you aware of the Commission's criteria
13 for evaluation of EAS routes?

14 A. No.

15 Q. Would you accept subject to your check that
16 EAS routes, one of the criteria is that EAS routes
17 not leapfrog exchanges, in other words, that they are
18 contiguous?

19 A. I can accept that subject to check.

20 Q. And would you accept subject to your check
21 that unless an exception is granted the mileage is
22 significantly less than 40 miles?

23 A. I have no knowledge of it, so I guess I can
24 accept it subject to check.

25 Q. You said you didn't do a comparison for the

03652

1 demand for EAS today versus EAS in 1978 and '79. Have
2 you done any study related to the demand for extended
3 area service today?

4 A. I am not involved in the EAS product per se
5 so I wouldn't be involved in any of those studies. I
6 do know that we have ongoing EAS dockets. We have
7 converted several exchanges to EAS in the last few
8 years so I know there is demand for it, but the extent
9 of that demand I'm not sure.

10 Q. Are you aware that in many of the
11 independent companies the penetration rate for toll
12 pack is in the 20 to 30 percent range?

13 A. Again, that's independent company data
14 based on their service and U S WEST has no knowledge
15 of that data because it's not our product.

16 Q. I did ask you a little earlier subject to
17 your check that there is information reported to U S
18 WEST from which you could calculate that figure, and
19 you did accept that subject to your check?

20 A. I don't know that I would be able to verify
21 that. If what you represented was true what we get is
22 the number of subscribers of toll pack. What we don't
23 have is the number of toll -- the number of customers
24 in your territories or the number of customers that
25 subscribe to long distance.

03653

1 Q. Are you suggesting that the number of
2 access lines that is served by an independent company
3 is not a readily available number either through the
4 reports filed with the FCC or reports filed with this
5 Commission?

6 MS. HASTINGS: Object. I think we're
7 really asking Mr. Purkey to check some things he has
8 indicated he's not sure he has the information to
9 check or could do the research to check.

10 MR. FINNIGAN: I would be happy to assist
11 him if it's necessary and that completes my question.
12 Thank you.

13 JUDGE WALLIS: Ms. Hastings, are we
14 satisfied with that?

15 MS. HASTINGS: Yes.

16 MS. PROCTOR: Your Honor, I realized I
17 forget to take care of one matter.

18 JUDGE WALLIS: Were you going to offer
19 Exhibit 626C?

20 MS. PROCTOR: Is that the WUT data request
21 284?

22 JUDGE WALLIS: Yes, it is.

23 MS. PROCTOR: Yes. That's exactly what I
24 was going to ask. It is a response from Mr. Purkey.

25 JUDGE WALLIS: Is there objection?

03654

1 MS. HASTINGS: I'm sorry. Could you say
2 that again?

3 JUDGE WALLIS: Is there objection to
4 receiving 626C for identification? That's Mr. Purkey's
5 response to WUT 01-284. You said there is no
6 objection.

7 MS. HASTINGS: I'm sorry. No.

8 JUDGE WALLIS: The exhibit is received.
9 (Admitted Exhibit 626C.)

10 JUDGE WALLIS: Is there further examination
11 from counsel for Mr. Purkey? From commissioners.

12 CHAIRMAN NELSON: No.

13 JUDGE WALLIS: It appears not. Excuse me.
14 Commissioner Hemstad.

15

16 EXAMINATION

17 BY COMMISSIONER HEMSTAD:

18 Q. Mr. Purkey, in your rebuttal testimony at
19 page 11 you undertake a discussion of the relative
20 inelasticity of long distance services. Have you
21 done studies on that or are you talking -- speaking
22 just generally about something that is well understood
23 in the industry?

24 A. It's well understood in the industry.

25 Q. Is there an accepted figure for the degree

03655

1 of inelasticity?

2 A. The elasticity that we used in this case
3 for -- and again, this was the short-term elasticity
4 factor -- was a negative .44. I believe the long-term
5 elasticity was in the neighborhood of a negative .71
6 or .72, something like that. But again as long as
7 those absolute values are less than one you will have
8 an inelastic service.

9 Q. At page 14, at line 4, you said reducing
10 prices is a general pattern in a competitive
11 environment. Why would a rational competitive
12 provider reduce prices in an inelastic market?

13 A. If you go back to my rebuttal on page 4 I
14 talk about this pizza example beginning at line 15.
15 Basically the gist of this pizza example is that if
16 the competitor makes a first strike that its losses
17 will be less than if revenue reductions are forced on
18 it by competitors if it has to respond to something.
19 So the reason that you would want to reduce revenues
20 in a competitive environment even though the service
21 is inelastic is so you can manage those revenues down
22 in a first strike mode as opposed to having these
23 losses forced upon you in an unmanaged fashion which
24 would ultimately result in more losses than what you
25 would have if you did it in a managed fashion.

03656

1 Q. But whatever competitor does the first
2 strike is probably acting irrationally?

3 A. If there was for example an oligopoly and
4 there's a tacit agreement among companies not to
5 reduce prices then that would be true, but in a
6 competitive environment you don't really know what
7 your competitor is going to do, the economic theory of
8 competition says that prices will be driven towards
9 costs, and so based on that economic theory, which we
10 find throughout every competitive service, prices are
11 driven towards cost, not to cost but towards cost, then
12 someone is going to blink and if you don't blink first
13 you're behind the eight ball already.

14 Q. But do you see that as a practical market
15 reality rather than simply dogma?

16 A. Absolutely. I called last night as a
17 matter of fact and found out that there are over six
18 million competitive businesses in the United States.
19 We have six million examples of this economic
20 principle in practice.

21 Q. But of course you can have more elastic
22 prices, too? That would suggest that lowering prices
23 will generate more revenue not less?

24 A. Yes. If your product was elastic then
25 lowering your prices would actually generate more

03657

1 revenue for you but that's not the case with long
2 distance.

3 Q. At page 25 of your rebuttal in responding
4 to Dr. Kargoll's testimony you say at line 20, in
5 general and recognizing that the situation is rapidly
6 changing other carriers must use U S WEST resources
7 plus their resources to get to end users. Therefore,
8 the other carriers are in general more inefficient
9 than U S WEST. I take it as long as that would be the
10 situation would you agree that U S WEST is then
11 inherently more efficient in that market?

12 A. In that respect, yes, absolutely.

13

14 CROSS-EXAMINATION

15 BY MR. SMITH:

16 Q. Mr. Purkey, I have a couple of clarifying
17 questions on the document Ms. Hastings distributed.
18 Do you have that with you?

19 JUDGE WALLIS: Let's mark as Exhibit 630C
20 for identification a single page documented designated
21 explanation of 10 percent in total revenues.

22 (Marked Exhibit 630C.)

23 A. Yes, I have it.

24 Q. All right, on the dollar figure on line 1,
25 does that include any revenue generated by GTE

03658

1 Northwest customers?

2 A. Yes. That's why I've labeled it U S WEST
3 plus ILEC.

4 Q. Do you know whether Ms. Wright performed a
5 proforma adjustment for that in this case?

6 A. I believe she -- well, I don't know what
7 you mean. I will tell you what she did do with it.
8 There were eight months worth of GTE data in there and
9 there were four months are without GTE after GTE
10 became the primary toll carrier, so the number in here
11 is reflective of eight months worth of GTE originating
12 long distance, and I don't know whether she made an
13 adjustment based on that or not.

14 Q. And then directing your attention to line 3
15 the dollar figure there, does that represent revenue
16 generated by ILEC customers other than GTE Northwest
17 customers?

18 A. Correct.

19 Q. Does it include any GTE Northwest revenues?

20 A. No. It's only long distance without GTE.

21 Q. Now, in producing the revenues shown there
22 on line 3 of the ILEC revenues, U S WEST had to pay
23 access charges back to those independents; is that
24 correct?

25 A. Yes.

03659

1 Q. And do you know how much that was or where
2 that would show up in what we have here in this
3 proceeding?

4 A. I can't give you an exact number associated
5 with those exact revenues, but if you would turn to
6 Exhibit 59C, which is the cross subsidy test for toll
7 including ILEC originating. If you look at line 6,
8 those are the independent company expenses excluding
9 GTE and Contel, so those should be relatively
10 comparable. The problem is is that these are different
11 years, so there would have to be some factors there but
12 that would be the ballpark.

13 Q. Back on 630C, does the revenue figure on
14 line 3 include billing and collection revenues from the
15 independents?

16 A. We don't get revenues. We pay billing and
17 collection to the independent companies as opposed to
18 receiving revenues from them for that.

19 MR. SMITH: Thank you.

20 MS. PROCTOR: Your Honor, I just wanted to
21 follow up on this exhibit.

22 JUDGE WALLIS: Very well.

23 BY MS. PROCTOR:

24 Q. Mr. Purkey, you referred to Exhibit I think
25 it was 59C for the amount of expenses paid to the

03660

1 independent companies as a ballpark. Are you aware
2 that the numbers shown by Mr. Farrow as representing
3 the access expense paid by U S WEST is what one might
4 also term a very different ballpark in his Exhibit
5 485C? And I'm looking specifically at the toll
6 analysis which was the backup for the first couple of
7 sheets, Exhibit 485C?

8 A. If you could show me that backup, I mean,
9 there are a variety of reasons why the number may
10 appear different and unless I could take a look at
11 that I wouldn't be able to comment.

12 MS. HASTINGS: We can give Mr. Purkey a
13 copy of Exhibit 485C and the materials that were a
14 backup to Mr. Farrow's exhibit.

15 JUDGE WALLIS: Let's be off the record for
16 a moment.

17 (Recess.)

18 Q. Mr. Purkey, did you make any attempt to
19 reconcile the numbers you used in your Exhibit 59C and
20 those Mr. Farrow used in his support documents for
21 Exhibit 485C for the access expense paid by U S WEST to
22 the independents?

23 A. Yes. There were attempts at some
24 reconciliation to see if we're using approximately the
25 same numbers. Again, on 59C, line 6, those are 1993

03661

1 numbers: I'm not sure of the B to I incremental
2 expense, that came from from Mr. Farrow, but if you are
3 talking about the B to I incremental cost shown in the
4 backup for 485C, that's not directly comparable to line
5 6 of 59C.

6 Q. And why is that?

7 A. Because the B to I incremental costs would
8 include only the cost of terminating calls to an
9 independent company whereas what I've shown on line 6
10 of Exhibit 59C are the total expenses including both
11 originating and terminating.

12 Q. Thank you. In Exhibit 630C, does that
13 reflect the sale of exchanges to PTI if you know?

14 A. Line 3 does. So I guess to that extent,
15 yes, it does.

16 Q. So line 3 was adjusted to reflect that
17 change?

18 A. Correct, yes.

19 MS. PROCTOR: Thank you.

20 JUDGE WALLIS: Redirect.

21 MR. FINNIGAN: If I might.

22

23 CROSS-EXAMINATION

24 BY MR. FINNIGAN:

25 Q. Mr. Purkey, I was confused by an

03662

1 explanation you gave to Mr. Smith, and looking at
2 Exhibit 630C, can you again tell me what that item
3 represents on line 4?

4 A. Looking at the data when GTE was still part
5 of the independent company originating mix, I looked
6 at the GTE and Contel data and put that together and
7 the remainder came out to be that percentage of line
8 4.

9 Q. The reason for my confusion is that GTE
10 serves approximately 600,000 access lines and the rest
11 of the independents serve in the neighborhood of
12 200,000 access lines, so I'm trying to reconcile that
13 percentage and wondering why the other independents
14 other than GTE have so much more toll if that is in
15 fact what that percentage is supposed to be?

16 A. It is, and it's based on minutes as opposed
17 to access lines and the minutes per access line could
18 be dramatically different from company to company.

19 Q. So you're suggesting that is what this
20 shows?

21 A. I'm not clear what question I'm answering.
22 What do you mean by this?

23 Q. You're saying that this number does in fact
24 reflect that on a per access line basis GTE has
25 significantly less minutes of toll than the rest of

03663

1 the independent industry?

2 A. I hate to make that direct comparison
3 because there could be a number of factors in there
4 that I am not aware of in the derivation of the data,
5 so if you were to make that comparison based solely on
6 those numbers, then, yes, you could make that
7 statement but I'm not sure that that would be a fair
8 way to go about -- as a matter of fact I'm sure it
9 would not be a fair way to go about it unless we had
10 how those numbers were derived and fully understood
11 the situation that we were in.

12 Q. But just so I understand it, you're saying
13 that from the entire universe of independent companies
14 -- and I will preface that by an adjective traditional
15 independent company -- other than GTE they account
16 for --

17 A. Well, it's your data.

18 Q. It's your exhibit, I'm sorry.

19 MR. TROTTER: Confidential?

20 A. I'm trying to go to the proprietary nature
21 of the exhibit.

22 JUDGE WALLIS: May that number be
23 excised from the question, please.

24 Q. I apologize. That that percentage
25 represents the nonGTE originated toll traffic?

03664

1 A. Yes.

2 MR. FINNIGAN: Thank you.

3 JUDGE WALLIS: Now are we ready for
4 redirect?

5 MS. HASTINGS: Just a point of
6 clarification. Do you want us to offer Exhibit 630C?
7 Will that help?

8 MR. SMITH: We are not offering it.

9 JUDGE WALLIS: Do you have an objection to
10 the document?

11 MS. HASTINGS: We'll go ahead and offer it
12 then.

13 JUDGE WALLIS: And there being no objection
14 the document is received.

15 (Admitted Exhibit 630C.)

16

17 REDIRECT EXAMINATION

18 BY MS. HASTINGS:

19 Q. Just a couple of questions for you, Mr.
20 Purkey. So the record is clear, Mr. Purkey, regarding
21 630C, your line 1, is it your understanding from your
22 discussions with Ms. Wright that the figure there on
23 line 1 represents basically four months of GTE
24 operating as a primary toll carrier?

25 A. Yes.

03665

1 Q. Thank you. And earlier today, Mr. Purkey,
2 Mr. Smith asked you a number of questions about your
3 testimony and the competitive data and why U S WEST
4 hasn't filed for competitive classification of some of
5 its toll services. Do you recall that testimony?

6 A. Yes.

7 Q. Do you have any other reasons that you
8 might be able to offer why U S WEST has not filed for
9 competitive classification of some of its services?

10 A. Well, it's U S WEST's assessment that the
11 environment is not friendly towards competitive
12 classification in general. And I guess I would cite
13 the example of Centrex where motions have been made to
14 take away its competitive classification even though
15 Centrex is clearly the most competitive service that
16 U S WEST offers or at least among the most.

17 Again, the time and resources and energy
18 that would be required to go into this docket simply
19 would not be worth the outcome of some limited pricing
20 flexibility.

21 Q. And you also I think --

22 A. At this time, anyway.

23 Q. And you also I think indicated that you
24 didn't particularly know the relative market share of
25 the 162 some long distance companies or the 59 operator

03666

1 service provider companies. Why is it, Mr. Purkey,
2 that you don't know the relative market share of those
3 companies?

4 A. The long distance is a competitive market.
5 These companies are very protective of their data on
6 how many minutes and messages that they have. U S
7 WEST simply doesn't have access to all of that
8 information. In a competitive environment it should
9 not be expected that U S WEST has all of the
10 information. Many of the data requests that were
11 asked of U S WEST --

12 MR. TROTTER: Your Honor, I will object.
13 The response is now going way beyond the question.

14 MS. HASTINGS: I just asked Mr. Purkey why
15 it is that he doesn't seem to have the information
16 that the Commission staff seems to think he needs or
17 have in his possession.

18 JUDGE WALLIS: I think he's completed his
19 response on that.

20 Q. Ms. Proctor asked you a number of questions
21 about data that U S WEST collects on its switches,
22 collected in automatic message recording tapes and
23 used by the company. Do you know if AT&T knows or has
24 in its possession its own data on its resellers and
25 its own minutes of use?

03667

1 A. It should.

2 Q. And then also, Mr. Purkey, are you aware in
3 response to a question that Commissioner Hemstad asked
4 you regarding elasticity, are you familiar with the
5 experience that Pactel experienced in California when
6 it reduced its toll rates?

7 A. I am generally familiar with that.

8 Q. Are you aware that it was ordered to reduce
9 its toll rates and it predicted that elasticity would
10 not occur?

11 A. Yes.

12 Q. And do you know whether or not Pactel
13 experienced massive revenue losses?

14 A. Yes, in fact they did.

15 MS. HASTINGS: Thank you. That's all I
16 have.

17 JUDGE WALLIS: Are there follow-up
18 questions? Let the record show that there is no
19 response. Mr. Purkey, thank you for appearing today.
20 You're excused from the stand at this time and let's
21 be off the record.

22 (Recess.)

23 JUDGE WALLIS: Let's be back on the record,
24 please. At this time the Commission staff has called
25 Paula M. Strain to the stand.

03668

1 In conjunction with Ms. Strain's appearance
2 we are marking the following documents. First we're
3 marking the prefiled direct testimony of Thomas M.
4 Kruse, K R U S E, as 631T for identification. The
5 attachment to that prefiled testimony, TMK-1 is marked
6 as 632 for identification. We're marking the direct
7 testimony consisting of the adoption and supplement to
8 the testimony of Mr. Kruse as Exhibit 633T for
9 identification.

10 Marking as 634 for identification, errata to
11 testimony of Paula M. Strain. Marking as 635 for
12 identification, a document designated TMK-1 revised
13 page 4.

14 At the company's request we are marking the
15 following documents for identification: As 636 for
16 identification we have a single page document
17 designated bench request No. 8F. As 637 for
18 identification we have a multi-page document designated
19 Coopers and Lybrand market study, and as 638 for
20 identification we have a multi-page document the first
21 page of which purports to be a personal services
22 contract filing face sheet dated May 24, 1995.

23 Mr. Trautman.

24 (Marked Exhibits 631T, 632, 633T, 634, 635,
25 636, 637 and 638.)

1 DIRECT EXAMINATION

2 BY MR. TRAUTMAN:

3 Q. Please state your name, spell your last
4 name and give your business address for the record.

5 A. My name is Paula M. Strain S, T R A I N.
6 My business address is 1300 South Evergreen Park Drive
7 Southwest, Post Office Box 47250, Olympia, Washington
8 98504.

9 Q. Did you prepare the testimony labeled as
10 Exhibit 633 in this proceeding?

11 A. Yes, I did.

12 Q. And in that testimony did you adopt and
13 supplement the testimony of Thomas M. Kruse which is
14 labeled Exhibit 631T except for those pages of his
15 testimony which contained his credentials and
16 experience or which addressed adjustment to costs
17 related to Bellcore and Advanced Technologies?

18 A. Yes. That's Exhibit No. 631T and I did
19 adopt that.

20 Q. Did you adopt Mr. Kruse's Exhibit TMK-1,
21 which is Exhibit 632, as further revised in part by
22 your revised Exhibit TMK-1, page 4, which is Exhibit
23 635?

24 A. Yes, I did.

25 Q. Have you made any changes to your

03670

1 previously filed testimony or exhibits by way of an
2 errata sheet labeled as Exhibit 634?

3 A. Yes, I did.

4 Q. Are the testimony and exhibit which you
5 have filed in this proceeding true and correct to the
6 best of your knowledge?

7 A. Yes.

8 Q. If I were to ask you today the questions
9 contained in your testimony would the answers be the
10 same?

11 A. Yes, they would.

12 MR. TRAUTMAN: I would move for admission
13 of Exhibits 631T, 632, 633T, 634 and 635.

14 JUDGE WALLIS: Is there any objection?

15 MR. OWENS: Only, I suppose, as a technical
16 foundational matter. 631T hasn't been fully
17 identified. It's been partially identified and it
18 seemed like it might be better to wait until
19 Mr. Griffith can identify the remainder of it.

20 JUDGE WALLIS: Another way to handle it
21 might be to receive it in total subject to
22 identification by witness Griffith.

23 MR. TRAUTMAN: And then at that point we
24 can offer the entire exhibit?

25 JUDGE WALLIS: Yes.

03671

1 MR. TRAUTMAN: That's fine.

2 JUDGE WALLIS: Exhibit 632, 633T, 634 and
3 635 are received. We will reserve ruling on 631T.

4 (Admitted Exhibits 632, 633T, 634 and 635.)

5 MR. TRAUTMAN: The witness is available for
6 cross.

7 JUDGE WALLIS: Mr. Owens.

8 MR. OWENS: Thank you, Your Honor.

9

10 CROSS-EXAMINATION

11 BY MR. OWENS:

12 Q. Good afternoon, Ms. Strain. I'm Doug Owens
13 representing U S WEST.

14 A. Good afternoon.

15 Q. Like to ask you to take a look, to start
16 with, at what's been marked as Exhibit 636, and is it
17 correct that this is a response to the bench request
18 No. 8F that was prepared by you or under your
19 direction?

20 A. Yes.

21 Q. And this of course was prepared before Mrs.
22 Wright took the stand; is that correct?

23 A. That is correct.

24 Q. And so bearing in mind her testimony, are
25 there any changes that you would make to this exhibit

03672

1 if you were to actually have to redo it today?

2 A. The column B marked USWC adjustment would
3 change to reflect Ms. Wright's withdrawal of
4 adjustment PFA No. 9.

5 Q. So would the effect of that be essentially
6 to put zeroes in that column opposite each line? That
7 is, the company is not proposing any adjustment from
8 what actually occurred during the test period?

9 A. That would be correct.

10 Q. Other than that, is the exhibit true and
11 correct to the best of your knowledge?

12 A. Yes, it is.

13 MR. OWENS: We would offer 636.

14 JUDGE WALLIS: There being no objection 636
15 is received.

16 (Admitted Exhibit 636.)

17 Q. I would like to ask you a few questions
18 about this exhibit, Mrs. Strain. Under the column C,
19 Corrected Staff Adjustment, and specifically the line
20 that says, "remove test year rate base," can you
21 explain how you computed that number, please,
22 \$11,766,524?

23 A. I believe that number came from the exhibit
24 or the worksheets that were filed by Ms. Wright with
25 her revised testimony, and if you will give me a

03673

1 second I will see if I can find that number.

2 Q. Well, let me just ask you if you can accept
3 subject to check that it represents accumulation of
4 the monthly additions to rate base that were
5 identified as being associated with restructuring?

6 A. For what period?

7 Q. For the test period?

8 A. I will accept that subject to check.

9 Q. Let me revise the request and ask if you
10 would accept subject to check that it was for calendar
11 year 1994.

12 A. I will accept that subject to check.

13 Q. Well, would you agree, then, that the
14 nature of that adjustment, if it were a rate base
15 analysis, would be to look at this component on an end
16 of period basis?

17 A. Yeah. That would be more accurate to use
18 the test year number. If I used the 1994 number then
19 it was in error.

20 Q. But assuming that that was an error but
21 putting that error aside, I'm just asking you if you
22 can agree with me that conceptually this number
23 represents an end of period number because it
24 accumulates mathematically the additions month over
25 month?

03674

1 A. It represents -- and you're asking me does
2 it represent the end of period 1994 calendar year?

3 Q. Yes.

4 A. Yes, it would.

5 Q. And would I correctly understand the
6 mathematical effect of your adjustment where you
7 subtract that number from U S WEST's rate base that
8 you are subtracting -- and again putting aside for a
9 minute the difference in the relevant periods involved
10 -- an end of period number from an average of monthly
11 average rate base?

12 A. The intent of my adjustment was to take out
13 the amounts residing in the test year for the
14 restructure that were added to the test year -- during
15 the test year.

16 Q. Can you answer my question, which is
17 conceptually are you subtracting from an average of
18 monthly average rate base an end of period amount for
19 this particular item?

20 A. Well, until I'm able to check this number
21 and see how it was compiled in Ms. Wright's exhibit I
22 can't answer that question.

23 Q. Well, assume that what I've asked you is to
24 accept subject to check is correct that it represents
25 the monthly additions throughout calendar 1994. Would

03675

1 you agree with me that that's the mathematical effect
2 of what you've done?

3 A. If this represents the monthly additions
4 through calendar year 1994 and forgetting about the
5 difference between the test year and using the
6 calendar year 1994, what I think I have done is to
7 take out the effect of rate base additions for
8 restructure from this test year.

9 Q. Well, now, can you answer the question I
10 asked, which is, assuming again that your check value
11 dates what I've asked you to accept subject to check,
12 you have removed an end of period amount from an
13 average of monthly average rate base?

14 A. If the number that you -- just trying to
15 make sure I understand your question.

16 JUDGE WALLIS: Would it be sufficient to
17 ask the witness if she used an end of period number?

18 MR. OWENS: Beg your pardon?

19 JUDGE WALLIS: Would it be sufficient to
20 ask the witness just if she used an end of period
21 number?

22 MR. OWENS: Well, she's indicated she's
23 going to have to check that, and so I'm asking her if
24 she accepts that mathematically the 11,766,524
25 represents the accumulation of the monthly additions

03676

1 during the calendar '94 if she would agree with me
2 that the mathematical effect of subtraction of that
3 number from U S WEST's rate base is the removal of an
4 end of period number from an average of monthly
5 average rate base?

6 A. Yes.

7 Q. And given that the number -- again, subject
8 to your checking the accuracy of what I'm asking you
9 -- was calculated, that is, the 11 million 766 by
10 accumulating the monthly additions, would you expect
11 that the average for let's say the year 1994 would be
12 smaller than the 11 million 766?

13 A. Well, again, I would like to check this
14 number to see if it includes any depreciation effect.
15 The intent was just to remove the rate base effect of
16 the 1994 restructure costs, so if this adjustment does
17 not do that then it should be revised to do that.

18 Q. And again to answer my question, assuming
19 that depreciation effects are not included in this
20 calculation, that it's simply the accumulation of the
21 12 months' additions of 1994, would you expect that if
22 you took an average for this amount, that is, rate
23 base associated with restructuring, it would be
24 smaller than the 11 million 766?

25 A. Yes, I would expect it to be.

03677

1 Q. Substantially smaller?

2 A. Depending on when those adjustments went
3 in. If it all went in at the beginning of the year
4 maybe not.

5 Q. That's fair. Now, I would also like to ask
6 you to look at the line entitled Test Year Savings,
7 Remove Test Year Savings. Can you accept subject to
8 check that that also represents the 12 months of
9 calendar 1994?

10 A. Yes.

11 Q. And was restructuring in effect during the
12 last two months of 1993?

13 A. I don't know if it was in effect for both
14 of those months. I know that in one of exhibits that
15 shows restructure activities for several years there
16 is 1993 amount shown for savings.

17 Q. Do you know for a fact that those savings
18 were associated with the restructuring plan that you
19 are dealing with in this adjustment and that they are
20 not associated with a prior plan?

21 A. I don't know that.

22 Q. I would like to ask you now to look at the
23 Exhibit 631 testimony exhibit. Beginning at line 8,
24 page 4, you describe what you characterize as a
25 disincentive to seek out the most cost-effective

03678

1 vendor, and you say that that serves to drive up those
2 costs shifted into the regulated entity because there
3 is no economic advantage in seeking the lowest price
4 most efficient contractor. I would like to ask you a
5 few questions about that. Do you intend by that to
6 convey that an affiliate would use two employees to do
7 the same job that it would take a single employee to
8 do in the regulated company?

9 A. That an affiliate would use two employees
10 to do something that the utility would use one for?

11 Q. Yes.

12 A. No.

13 Q. Have you read Ms. Erdahl's testimony?

14 A. Yes.

15 Q. And does she testify in general that the
16 purpose of the company's restructuring activity is to
17 achieve efficiencies?

18 A. I will accept that subject to check. I
19 don't have it in front of me.

20 Q. Is it correct that the testimony that
21 you've adopted describes as some of the effects of the
22 company's restructuring various cost savings that are
23 expected to be or were expected to be achieved in
24 1995?

25 A. Yes, it does.

03679

1 Q. Is it your belief that those are intended
2 outcomes on the part of the company of the
3 restructuring activity?

4 A. Yes.

5 Q. And the company has gone to great lengths
6 to achieve those cost savings. Would you agree with
7 that?

8 A. I can't answer whether they have or have
9 not. I just know that that is their intent.

10 Q. Well, are you familiar with what's gone on
11 in restructuring at all in the company?

12 A. Yes.

13 Q. Do you know that they've consolidated from
14 several hundred service centers to approximately 26?

15 A. Yes.

16 Q. They've moved a number of employees around?

17 A. Yes. I'm generally familiar with the
18 outline of the restructuring.

19 Q. And your testimony is that for some reason
20 the incentive to achieve cost savings is absent from
21 the company's activities where it comes to procuring
22 services and equipment. Is that your testimony?

23 A. Yes, it is.

24 Q. Have you interviewed anyone in the company
25 management to support that testimony?

03680

1 A. I have talked to Mr. McDonald. I have not
2 talked to other employees regarding this. I did talk
3 to Mr. Kruse about adopting his testimony.

4 Q. Well, you didn't talk to Mr. Kruse at a time
5 when he was an employee of the company, did you?

6 A. No.

7 Q. And Mr. McDonald didn't tell you that the
8 company didn't have an incentive to be efficient in
9 its relationship with BRI, did he?

10 A. No, he did not.

11 Q. Do you have any documents that you rely on
12 for the statement that U S WEST has no incentive to be
13 cost-effective in its procurement activities
14 notwithstanding the incentives you agree exist that
15 are manifested in its other activities?

16 A. Well, my testimony goes to the point that
17 -- and I haven't looked at documents other than --

18 Q. Thank you. If you don't have any that's a
19 sufficient answer to my question.

20 MR. TROTTER: Excuse me, Your Honor, she
21 said other than and she wasn't allowed to complete it?

22 A. Other than my experience testifying on
23 affiliated interests issues in general and my reading
24 on the subject.

25 Q. All right. Any U S WEST originated

03681

1 documents?

2 A. Not that I recall.

3 Q. It's true, isn't it, that U S WEST does use
4 through BRI nonaffiliated vendors for certain services
5 that are used by it in providing phone service?

6 A. Through BRI it does.

7 Q. And those would be, for example, trucking
8 companies; is that correct?

9 A. Yes.

10 Q. Doesn't that manifest to you a desire to
11 seek the best possible deal compared to having
12 transportation services performed by BRI employees
13 with BRI trucks?

14 A. No, I don't think that it does. The fact
15 that BRI employs and goes out for bid for services
16 doesn't change the fact that U S WEST is paying more
17 for such services because it employs BRI to perform
18 the contracting and the procurement than it could if
19 it contracted with other vendors.

20 Q. BRI passes through its costs to U S WEST
21 Communications, correct?

22 A. That's correct.

23 Q. It's true, isn't it, that between rate cases
24 each dollar of reduced cost that the company generates
25 -- that is U S WEST Communications -- generates in its

03682

1 procurement activities is a dollar of increased
2 earnings?

3 A. Not necessarily because U S WEST, Inc., the
4 parent company, is the one that experiences the
5 earnings and the incentive of the company is to look
6 at the overall earnings of U S WEST, Inc. rather than
7 looking at the earnings of one subsidiary.

8 Q. I'm anxious to find out exactly what you
9 said. You're telling me that if U S WEST
10 Communications pays BRI less for a procurement
11 activity that that does not translate into increased
12 net operating income for U S WEST Communications. Is
13 that your testimony?

14 A. Not necessarily, because it may be that
15 BRI's costs are incurred whether or not U S WEST
16 Communications pays for them, and if U S WEST
17 Communications doesn't pay for them and they're
18 incurred anyway U S WEST, Inc. incurs those costs
19 anyway, and if they can't get the money from the
20 ratepayers or from rates then those costs need to be
21 absorbed by other affiliates or by U S WEST, Inc.

22 Q. I think you have inserted some things into
23 my question that doesn't exist. Let me try to ask the
24 question again and make it clear what I'm asking you
25 and what I'm not asking you. Assume that in one year

03683

1 the company pays, that is U S WEST Communication --
2 pays \$100 for the service of transporting parts from a
3 warehouse to a service facility, and let's say in the
4 next year U S WEST Communications pays BRI \$90 for the
5 service of transporting the same parts. Is it your
6 testimony that the \$10 doesn't translate into
7 increased net income at U S WEST Communications?

8 A. I'm sorry, that's not my testimony.
9 In other words, I misunderstood your question.

10 Q. And U S WEST Communications is
11 not continuously in rate cases in all of its
12 jurisdictions, is it?

13 A. Not to my knowledge.

14 Q. Do you believe that U S WEST Communications
15 has an incentive to increase its earnings?

16 A. Yes.

17 Q. You criticize the company's use of a
18 14-state return as a cost component and characterized
19 this as a subtle form of cost transference; is that
20 correct?

21 A. That's correct.

22 Q. And the transference you're talking about
23 is from one state to another; is that right?

24 A. The cost transference that's being referred
25 to is the fact that the return is included in a

03684

1 component that is ultimately capitalized and then
2 earnest a second return but it would also be true to
3 the extent that the return in one state is different
4 than another there would be a cost transference
5 between states.

6 Q. Under the first type of transference from
7 whom is the cost transferred and to whom?

8 A. The cost would be transferred from the
9 state with the higher return to the state with the
10 lower return.

11 Q. No. I asked you about the first type. You
12 said that there was what you characterized as a return
13 embedded in the object purchased and that would earn a
14 second return and that was the question that I was
15 asking you. From whom is the cost transferred and to
16 whom?

17 A. It would be from BRI to U S WEST
18 Communications.

19 Q. Is it your testimony that if U S WEST
20 Communications did its own procurement directly that
21 it could do that activity without incrementally
22 increasing its investment in fixed assets?

23 A. No, it's not.

24 Q. So under that hypothetical, would it be
25 correct that U S WEST -- U S WEST Communications's

03685

1 rate base would be larger than it is now?

2 A. Not necessarily. I think my testimony goes
3 to the fact that using alternate suppliers it would be
4 lower.

5 Q. All right. Is it your testimony that
6 alternate suppliers could perform the procurement
7 function for U S WEST Communications without fixed
8 assets?

9 A. I don't know what fixed assets would be.
10 My testimony was limited to looking at the value
11 studies and looking at the comparisons that were
12 offered by the company which concluded the use of BRI
13 fixed assets.

14 Q. Just so I understand your testimony, it's
15 agreed that BRI has fixed assets that it uses in
16 performing its functions for U S WEST; is that
17 correct?

18 A. That is correct.

19 Q. And it's the return on those assets that
20 you are talking about when you talk about the cost
21 transference from BRI to U S WEST; is that right?

22 A. Well, the testimony is that the affiliate
23 includes a rate of return component in its charges for
24 the company.

25 Q. And that's what I'm asking you about. The

03686

1 return on those fixed assets is what you were talking
2 about earlier when you answered my question that
3 that's what you meant in terms of the cost
4 transference?

5 A. Yes. It's whatever return component is
6 being included in the charges to U S WEST
7 Communications.

8 Q. And so when you testified that you thought
9 that an alternative supplier could do the job for
10 less, is it your assumption in making that statement
11 that the fixed assets that BRI uses would not have to
12 be at least substantially replicated or similar assets
13 would not have to be used by an alternative provider?
14 Is that your assumption?

15 A. You're asking me if I assume that an
16 alternate provider would not use the BRI assets?

17 Q. Or similar assets.

18 A. Well, I am not sure how many assets BRI is
19 including a rate of return component on that it's then
20 charging to U S WEST Communications, so I can't answer
21 that all of the assets would be used by an alternate
22 provider or that they would have to provide substitute
23 assets for all the ones that earn a return that then
24 gets charged to U S WEST.

25 Q. So if you don't know that then you don't

03687

1 know for sure that an alternate supplier could do the
2 job and not include at least an equal amount of return
3 in its charges to U S WEST Communications; is that
4 correct?

5 A. Well, my testimony is that we're looking at
6 the overall cost that an alternate provider would
7 charge and not splitting it into whether it's return
8 or expense.

9 Q. I'm asking you about your specific
10 testimony about what you characterize as a cost
11 transference, and I'm simply asking you if it isn't
12 true that if you don't know what components BRI
13 includes a return on, then you don't know for sure
14 that an alternate supplier could provide the same
15 service and not include an equal or greater amount
16 associated with return on similar fixed assets. Is
17 that true?

18 A. That's true.

19 Q. With regard to the part of the cost
20 transference that you talked about that's from state
21 to state, the return amount that's used represents an
22 average of U S WEST regulated jurisdictions; is that
23 correct?

24 A. That's the testimony, yes.

25 Q. You don't have any reason to dispute that,

03688

1 do you?

2 A. No.

3 Q. Do you know when it was that this
4 Commission most recently in a contested proceeding set
5 the authorized rate of return for U S WEST?

6 A. If you mean in a contested rate case?

7 Q. Yes.

8 A. I'm not sure of the specific year.

9 Q. Would you accept that it was in 1983?

10 A. Yes, I will accept that.

11 Q. Just so the record is clear, you don't
12 object, at least in this part of your criticism, to
13 the existence of some return. You just disagree as to
14 the proper amount of that return, is that correct, as
15 a cost transference?

16 A. The objection goes to the fact that when
17 services could be provided -- yeah. The answer is
18 that it's the difference in the return.

19 Q. On page 3 of the Exhibit 631T -- I'm sorry,
20 this was your supplemental testimony, Exhibit 633T.
21 Beginning at line 2 you discuss the question of the
22 consistency of the BRI costs with the costs for the
23 alternative vendors in the 1990 value study; is that
24 correct?

25 A. That's correct.

03689

1 Q. And you said that you see that this --
2 meaning Mr. Kruse's testimony -- that the BRI costs
3 were lower than they would have been had they been
4 calculated in the same manner as the costs for the
5 alternative vendors was true for certain cost
6 categories. What categories were those?
7 Let me just ask you to accept that what at least
8 appears in the testimony is that he stated that the
9 problem was that the hours were calculated
10 differently; is that right?

11 A. Well, the hours were calculated differently
12 and the labor rates were calculated inconsistently
13 also.

14 Q. What specific difference in labor rates did
15 you mean in that answer?

16 A. The labor rates for the alternative vendors
17 were brought forward from the 1988 value study and
18 they included loadings for overheads, and that was
19 consistent with the way the 1988 study was done for
20 BRI as well. However, those loaded labor rates were
21 then inflated, adjusted for geographic differences and
22 then compared with BRI's 1990 labor costs which did
23 not include the same overhead loadings. And then for
24 all three vendors overhead loadings were then added to
25 all three in the same dollar amounts.

03690

1 Q. Is it true that the overhead loadings in
2 the 1990 study were the same for the alternative
3 vendors as they were for BRI?

4 A. No, it is not true because in addition to
5 the dollar amount overhead loadings that were shown in
6 the 1990 study the underlying labor rates, which were
7 reflected in the payroll amounts, were not consistent
8 because the alternative vendors from the 1988 study
9 had loadings in those labor rates. So, in other
10 words, they had overheads loaded in there twice.

11 Q. And do you have a document that you rely on
12 for that conclusion?

13 A. Yes. The documents I relied on were the
14 1988 and 1990 value study and appendices.

15 Q. Nothing else?

16 A. No, sir.

17 Q. You also claim that the contract
18 administration cost of approximately \$656,000 annually
19 is duplicative; is that correct?

20 A. That's correct.

21 Q. Directing your attention to Exhibit 637, do
22 you recognize this as a portion of the bidding
23 instructions that produced the information that
24 Coopers and Lybrand used in the 1988 comparison study?

25 A. Yes.

03691

1 Q. And directing your attention to the fourth
2 page of the document, you recognize that as the page
3 that describes the duties of the assistant procurement
4 manager and contract agent and at the bottom customer
5 service representative?

6 A. Yes, although I don't know that it totally
7 represents the customer service representative. It
8 may be truncated.

9 Q. That's fine. I'm more interested in the
10 other two. Now, would you agree with me that a
11 contract agent is one of the positions that you
12 describe as being potentially duplicative with the
13 contract administration function that U S WEST has as
14 a result of the Coopers and Lybrand study included in
15 the cost of the alternative vendors?

16 A. Could you point me where in the testimony I
17 refer to that? I assume it's the Kruse testimony.

18 Q. Yes. It begins at the bottom of page 8 and
19 then the specific reference would be line 15 at page
20 9.

21 A. Yes, I see that.

22 Q. Isn't it true that this position has as its
23 function working with the vendors of equipment from
24 which the contractor would obtain the equipment and
25 then turn around and deliver the equipment to U S WEST

03692

1 Communications?

2 A. Well, in reading that functional -- in
3 reading the functional requirements I see those tasks.
4 I also see monitoring contract compliance by the
5 company and the vendor resolved contract related
6 problems.

7 Q. So that's the language that you rely on to
8 assert that this function duplicates the function of
9 contract administrator as described at the bottom of
10 page 8?

11 A. Yes. That's part of the position, yes.

12 Q. Did you interview anybody at Coopers and
13 Lybrand in making this conclusion?

14 A. No, I did not.

15 Q. So you don't know what company is meant by
16 the capital C company at that reference that you just
17 gave; is that correct?

18 A. No. I'm assuming it means the company i.e.
19 U S WEST.

20 Q. But it could also mean the contractor,
21 correct?

22 A. If those two words were used
23 interchangeably it could.

24 Q. Well, under the arrangement here would
25 there be any direct contract between U S WEST

03693

1 Communications and the vendor of equipment like
2 Northern Telecom?

3 A. No. There would be a contract between the
4 alternative provider and Northern Telecom.

5 Q. So whatever this phrase "monitor contract
6 compliance by the company and the vendor" means, it
7 wouldn't involve monitoring compliance by U S WEST
8 Communications with anyone, would it?

9 A. No, and I guess the reason that the staff
10 objected to that cost is that according to the
11 testimony of Mr. McDonald the cost was added because a
12 layer of contract management was anticipated to be
13 added to the BRI organization to administrator the
14 contracts with the alternate vendors.

15 Q. Well, whether the layer of contract
16 management is added at BRI or at U S WEST
17 Communications, isn't it true that there would have to
18 be some activity that doesn't now exist to
19 administrator a contract with a nonaffiliated
20 provider?

21 A. Well, I would imagine that U S WEST C has
22 contract managers that would probably manage those
23 aspects of a contract in lieu of managing them with
24 BRI.

25 Q. Well, I'm not asking for your imagination.

03694

1 Do you know whether or not U S WEST Communications
2 today has persons, a sufficient number of persons, that
3 it would use to administrate a contract with a
4 nonaffiliated provider?

5 A. I can't speak to the sufficiency of their
6 contract administrators.

7 Q. Well, the operation is run on a fairly
8 integrated basis today, isn't it?

9 A. That's my understanding.

10 Q. And it's reasonable -- strike that. Do you
11 have any evidence that a nonaffiliated provider would
12 run its operation with the same degree of integration
13 with U S WEST Communications?

14 A. I don't have any evidence to support that
15 or to refute it.

16 Q. So is it possible that the \$656,000 that
17 you've drawn attention to and exception to could
18 represent a function that is necessary if U S WEST
19 Communications has its procurement done by a
20 nonaffiliated provider which isn't necessary under the
21 current arrangement?

22 A. No, that is not our position.

23 Q. I'm not asking you if it's your position.
24 I'm asking you if it's possible.

25 A. Well, if I thought it was possible I

03695

1 wouldn't have made the adjustment.

2 Q. So you're saying it's impossible?

3 A. I'm saying it's unlikely and therefore we
4 made the adjustment to take that cost out.

5 Q. And in making your judgment that it's
6 unlikely, did you rely on any facts other than what
7 I've asked you or what are in your testimony?

8 A. Other than the exhibits and the answers to
9 data requests that we received, no.

10 Q. Which specific answers to data requests did
11 you rely in making that judgment?

12 A. The answer to data request I think the
13 number is 432, and that has been admitted -- excuse
14 me. Exhibit 271, which is the company's answer to
15 staff data request 468 and the documents that were
16 supplied with the value studies.

17 MR. OWENS: I would offer 637.

18 JUDGE WALLIS: Is there any objection?
19 There being no objection the exhibit is received.

20 (Admitted Exhibit 637.)

21 Q. Your Exhibit 635, which is the revised
22 calculation of the disallowance, uses at line Roman
23 numeral II the term "average alternative vendor
24 costs." Is it correct that the amount of the
25 disallowance is computed as the difference between the

03696

1 average alternative vendor costs and the BRI test year
2 expense?

3 A. Yes.

4 Q. And would it be correct to assume --

5 A. Excuse me, I'm sorry. That is not correct.

6 What the BRI cost is that's compared to that is based
7 on specific service codes for the services for which
8 the value studies were performed and those were
9 provided to us on a 1994 calendar year basis.

10 Q. With that qualification then would the
11 answer to my question be yes?

12 A. Yes. On the schedule the adjustment should
13 be -- is the difference between Roman numeral I and
14 Roman numeral II.

15 Q. And the Roman numeral I would be the total
16 BRI costs should be to the qualification you gave
17 about the specific service codes?

18 A. Yes.

19 Q. And would I be correct, would the
20 Commission be correct, in understanding that the
21 reason that it's portrayed that way is that you think
22 that's the right way to calculate it?

23 A. Yes.

24 Q. And the average alternative vendor costs
25 are calculated by, I take it, adding the two numbers

03697

1 immediately above and then dividing by 2; is that
2 right?

3 A. Yes.

4 Q. That's how you normally do an average; is
5 that correct?

6 A. Yes. An alternative way to do it would be
7 to take the two percentage amounts that are shown on
8 those two lines and average those and apply those to
9 the dollar amount in Roman numeral I, but the answer
10 should be very similar.

11 Q. Now, the relationship of the Dane Zimmerman
12 and Pan Am to BRI costs, those percentages were taken
13 from where?

14 A. Those were taken from the 1988 value study.

15 Q. Now, there were eight alternative vendors
16 in the 1988 value study not just two; is that correct?

17 A. That's correct.

18 Q. And if you were to do an average using the
19 eight alternative vendors instead of the two you
20 picked, would you agree with me that the dollar amount
21 under the potential savings line would be
22 approximately zero?

23 A. That would be because of the eight
24 alternative vendors looked at in the '88 study,
25 several of them had costs that would be higher than

03698

1 BRI's. Our assumption was that U S WEST C would not
2 select a vendor with higher costs than what it was
3 already incurring.

4 Q. Can you answer my question was that if you
5 didn't average the way you said it was proper to do,
6 which was to add together the data points and divide
7 by the number of data points, you would come out with
8 a potential savings of approximately zero using all of
9 the participant in the 1988 study?

10 A. Mathematically I will accept that subject
11 to check.

12 Q. And all those providers in the 1988 study
13 were alternative vendors as you've used that term in
14 this case; is that correct?

15 A. That's my understanding.

16 Q. Now, would you agree with me that the
17 relationship between U S WEST and BRI is for the
18 provision by BRI of what would be properly
19 characterized as personal services to U S WEST
20 Communications?

21 A. Well, I guess it would depend on what your
22 definition of personal services is. I know that they
23 do other things like real estate. They do other
24 things than what we looked at in our adjustment.

25 Q. But what you looked at in your adjustment

03699

1 were personal services, procurement of equipment?

2 A. Yes. We looked at procurement,
3 warehousing, transportation.

4 Q. So would those all be personal services?

5 A. I would not call those personal services
6 but that may be a term of art in the industry. I
7 don't know.

8 Q. Well, if BRI purchases cable for U S WEST
9 Communications, is that a personal service?

10 A. Again, I don't have any reason to say that
11 it is or it isn't, because I would not call it a
12 personal service. I would call it procurement.

13 Q. Well, as opposed to it's not real estate,
14 right?

15 A. No.

16 Q. And it's not a transaction where BRI took
17 title to an asset and then sold the asset to U S WEST
18 Communications, is it?

19 A. No.

20 Q. So, let me ask this. Are some of the
21 activities within U S WEST's relationship with BRI
22 properly characterized as personal services in your
23 mind?

24 A. Not the ones that I looked at.

25 Q. And what's the basis of that statement?

03700

1 A. Well, the way that I would define personal
2 services would be if a person did something for me.

3 Q. Are you aware of whether or not in
4 Washington law personal services contracts can be
5 provided to state agencies by entities that would
6 include corporations?

7 MR. TRAUTMAN: I would object. That calls
8 for a legal conclusion.

9 MR. OWENS: I just asked her if she was
10 aware.

11 A. No, I'm not aware.

12 Q. Let me ask you to assume that a personal
13 service can be performed by a corporation. Do you
14 have any other reason to say that there are no
15 personal services involved in a relationship between U
16 S WEST Communications and BRI?

17 A. I think we're just tinkering about
18 semantics. I just don't see personal services being
19 synonymous with the types of services that BRI
20 provides to U S WEST C that we addressed in our
21 testimony in this proceeding.

22 Q. Let me ask you to accept subject to check
23 or let me ask you to accept as a hypothetical that
24 they meet an appropriate legal definition of personal
25 service?

03701

1 A. I will accept that subject to check.

2 Q. And direct your attention to Exhibit 638.

3 I assume you probably haven't seen this before?

4 A. You're correct, I have not seen it before.

5 Q. Will you accept subject to check that it is

6 a personal services contract for work done in this

7 case by a consultant Dr. Selwyn and his company

8 Economics and Technology Inc.

9 A. Yes.

10 Q. As far as you know Economics and Technology

11 Inc. is a corporation, right?

12 A. I would assume that from their title.

13 Q. And that this is a copy on file with the

14 office of financial management? I'm just asking you to

15 further accept that fact subject to check?

16 A. Okay.

17 Q. It's correct, isn't it, that the Commission

18 did not have to put this particular contract out for

19 bid?

20 A. I wasn't here when this contract was let.

21 I wasn't working for the agency and I don't know how

22 this contract was let or what the procedures were.

23 Q. Do you see the box up at the top that says

24 type of contract and it's checked expert witness?

25 The upper right, I'm sorry.

03702

1 A. My copy appears to be cut off. Upper
2 right?

3 Q. Upper right?

4 A. I see where you're -- it's very small
5 print.

6 Q. Yes, I'm sorry, it is. It says expert
7 witness?

8 A. Yes, it does.

9 Q. And I will just ask you to accept subject
10 to check that there is a provision in the statute that
11 says that expert witness contracts do not have to be
12 competitively bid?

13 A. I will accept that.

14 Q. So under that assumption would you agree
15 with me that there was a procurement by this agency
16 involving this case that this agency did not have to,
17 and as far as you know didn't, obtain the lowest price
18 through a competitive bid process?

19 A. I can't say anything about whether they got
20 the lowest price or not, and I can't really speak to
21 whether there were any comparable vendors that could
22 have been used for the services provided in this
23 contract at any cost so I really can't agree with you.

24 Q. Well, I asked you whether as far as you
25 know the Commission did not obtain -- let me ask you

03703

1 this.

2 MR. TRAUTMAN: Your Honor, I would object
3 at this point. The witness has clearly indicated she
4 is not familiar with this document. She has not seen
5 it. She was not at the Commission when it was entered
6 into and yet she is continually being asked questions
7 about the document. I think she's clearly indicated
8 she's not familiar with it.

9 MR. OWENS: Well, I'm asking her a question
10 that clearly goes to the standard that the state of
11 Washington through this witness wants to hold my
12 client to in its procurement, and I think I'm entitled
13 to explore what she knows. I asked a question that had
14 two parts in it and she answered as to one part. I'm
15 asking as to the other part now.

16 JUDGE WALLIS: I understood the witness to
17 say that she wasn't around when this contract was
18 entered and she doesn't know the standard that was
19 applied and I tend to agree with Mr. Trautman that
20 she's indicated she has no knowledge.

21 MR. OWENS: I will move on.

22 Q. Like to ask you to accept subject to check
23 that there's also a provision in the state personal
24 services contract statute RCW 39.289.006, paragraph 3,
25 that allows, even in a competitive solicitation, a

03704

1 collection based on criteria which may include such
2 factors as the consultants' fees or costs, ability,
3 capacity, experience, reputation, responsiveness to
4 solicitation requirements, quality of previous
5 performance and compliance with statutes and rules
6 relating to contracts of services. Can you accept
7 that subject to check?

8 A. Yes.

9 Q. If that's the case, wouldn't it be true
10 that a state agency procuring personal services would
11 not necessarily always have to accept the lowest bid?

12 A. I can't answer that because I'm not
13 familiar with what regulations were promulgated to
14 support that statute and I am not familiar with state
15 procurement regulations or procedures.

16 Q. So if you're not familiar with the
17 regulations would it be fair to say you don't know
18 that there are any regulations that affirmatively
19 require the state in all circumstances to accept the
20 lowest bid?

21 A. Yes, I will agree with that.

22 Q. And if there aren't any such requirements
23 isn't the standard that you're proposing to hold U S
24 WEST to more strict than the state is being held to?

25 A. No.

03705

1 Q. You're proposing to use only the variable
2 of price as the basis for your disallowance; is that
3 correct?

4 A. Well, what we're looking at is the price
5 that was given based on the value study performed by
6 the company which found these vendors to be valid
7 alternatives.

8 Q. And didn't the value study also
9 differentiate the providers according to variables
10 such as their flexibility?

11 A. The value study stated that there were
12 factors other than price to be considered, and I don't
13 remember if the value study said flexibility was one
14 of those or if that was something in Mr. McDonald's
15 testimony.

16 Q. Do you have any evidence to contradict Mr.
17 McDonald's testimony concerning the relative
18 comparability of the service provided by BRI with that
19 provided by Bechtel?

20 A. I don't have any evidence on that.

21 Q. And wasn't Bechtel one of the higher priced
22 providers in this study?

23 A. It was the highest priced provider in the
24 1990 study. Well, actually, no, it may not have been.
25 I didn't look at the bidding documents on Bechtel, and

03706

1 I am not sure if -- I don't know how their costs were
2 determined.

3 Q. So you don't know whether or not Bechtel in
4 the 1988 study was one of the lowest bidders, highest
5 cost bidders?

6 A. I didn't remember that they had been in the
7 '88 study but I will accept that they did subject to
8 check. In looking at the '88 study Bechtel was the
9 second highest bidder.

10 Q. Out of eight?

11 A. Out of eight.

12 Q. If it's true that the Commission did not
13 obtain the lowest price bid for the service that was
14 provided by Dr. Selwyn and ETI in this case, has the
15 Commission thereby disadvantaged U S WEST ratepayers?

16 A. Well, again, I don't know if there were
17 bids. The document that you gave me, you appeared to
18 indicate that there were no bids so I don't know if --
19 and, again, I can't tell you whether that was the
20 lowest price that they could have received or should
21 have received for the service that Selwyn provided.

22 Q. Let me ask you this. Ask you to assume
23 that because it's designated an expert witness
24 contract it's exempt from competitive bidding.

25 MR. TRAUTMAN: Your Honor, I would object

03707

1 again. He's again referring to the expert witness
2 contract: The witness indicated she is not familiar
3 with it and yet we're going once again into the terms
4 of the contract with which she's not familiar.

5 MR. TROTTER: I have an objection on
6 relevance.

7 MR. OWENS: I will establish relevance.

8 MR. TROTTER: Well, first of all, we
9 haven't established that the company is going to be
10 charged anything over their regulatory fee. Number
11 two, as far as I know the staff does not or any party
12 seeking to impute state wage rates on the company for
13 similar services, and so I just don't see the
14 particular relevance in this inquiry at all.

15 MR. OWENS: The testimony of the witnesses
16 is that by not using the lowest price the company is
17 disadvantaging ratepayers and supposedly in the amount
18 of the 3.6 million dollars and seems to me it's
19 relevant to establish that other entities that have
20 certain public interest aspects to their work
21 including this Commission don't always use the lowest
22 bid, and whether in this case the regulatory fee would
23 be incrementally increased or not, the fact is that
24 the Commission's costs are passed on to U S WEST
25 ratepayers.

03708

1 JUDGE WALLIS: The concern that I have
2 regarding this particular contract is that the witness
3 has clearly indicated she doesn't know anything about
4 it. She's not an expert in state contract
5 procurement, and I have grave reservations about
6 pursuing this document. You indicated in your
7 response to the objection that you had some -- you had
8 an approach and maybe rather than using this document
9 as a vehicle, you might just ask the questions that
10 were indicated in the response to the objection.

11 MR. OWENS: I will move on, Your Honor.

12 Q. Is it the case that the Commission obtains
13 computer services from the Department of Information
14 Services?

15 A. I think so, yes.

16 Q. Is the Commission required to demonstrate
17 through some kind of bidding process that that's the
18 lowest cost means of acquiring computer services
19 rather than dealing directly with vendors?

20 A. I don't have any knowledge about that.

21 Q. It's true, isn't it, that consumers don't
22 always buy things for the lowest price among
23 substitutable good or service; is that correct?

24 A. Well, I can only speak for myself. I
25 always try and buy something for the lowest price if

03709

1 it's comparable with the standards that I require.

2 Q. Well, you've put your finger on the
3 qualification. Not all things are comparable even if
4 they fit into the same general category. Isn't that
5 true?

6 A. That's true.

7 Q. For example, I don't know your experience in
8 the insurance industry, would you agree with me that
9 it's possible to obtain different prices for the same
10 risk from different companies for coverage of the same
11 risk?

12 A. That's possible.

13 Q. And don't consumers look to things like
14 claim service and responsiveness of the company in
15 deciding whether to pay a higher premium for the same
16 risk?

17 A. Yes.

18 Q. And you don't think that's unreasonable, do
19 you?

20 A. It depends on the circumstances.

21 Q. It's not always unreasonable then?

22 A. No.

23 Q. Do you dispute Mr. McDonald's testimony at
24 page 47 of his direct that BRI bills its actual costs
25 to U S WEST Communications?

03710

1 A. No, I don't dispute that.

2 Q. Do you contend that the proof that U S WEST
3 Communications has supplied of BRI's costs is
4 unsatisfactory?

5 A. Yes, and that is why we made the
6 adjustment. We don't believe that the costs that were
7 supplied are reasonable compared to other
8 alternatives.

9 Q. Perhaps you misunderstood my question. Do
10 you contend that U S WEST has failed satisfactorily to
11 show you what the actual costs incurred by BRI was for
12 providing the service?

13 A. No, I don't dispute that they showed me what
14 BRI charged U S WEST C.

15 Q. That wasn't my question. My question was,
16 do you dispute that U S WEST has failed to show what
17 costs BRI actually incurred in providing the service?

18 A. No, I won't dispute that.

19 Q. Would you agree that it would be reasonable
20 to look at in terms of deciding whether BRI's costs
21 are excessive, whether BRI has achieved deficiencies
22 over time in providing service to U S WEST
23 Communications?

24 A. I would have to -- that is one factor to
25 look at.

03711

1 Q. Would you agree that a reasonable measure
2 of the efficiency of the business that BRI is in could
3 be the cost it incurs per dollar of material or
4 services procured for U S WEST Communications?

5 A. Well, that's one benchmark that can be
6 looked at but without looking at what the alternatives
7 are you can't tell whether that is as efficient as it
8 could have been or not.

9 Q. But you would agree with me that that is
10 one reasonable measure of efficiency when looked at
11 over time, would that be correct?

12 A. For a single vendor, yes.

13 Q. And would you agree that another reasonable
14 measurement of efficiency of that business would be
15 the cost per line item shipped that BRI incurred?

16 A. For a single vendor over time.

17 Q. Would you agree that U S WEST's
18 measurements of these items shows increased
19 continuously in BRI's efficiency as measured by those
20 measurements during the last five years?

21 A. Yes. That's what they appear to show.

22 Q. Have you produced any evidence of any
23 offsetting declines in efficiency using any other
24 method during that period?

25 A. No, I haven't.

03712

1 Q. Have you produced any evidence that it's
2 unreasonable for U S WEST Communications to consider
3 factors other than price in making its decision to
4 acquire its procurement services through BRI?

5 A. No.

6 Q. Like to revisit for a minute your statement
7 that the overheads were included twice in the 1990
8 study for the alternative providers. That was what
9 you stated, correct?

10 A. Yes.

11 Q. Isn't it true that the loadings in the 1988
12 study were approximately 24 percent?

13 A. Yes, that's correct as revised. That
14 was on the BRI labor rates. The loadings for the
15 alternative vendors were never quantified. It was
16 stated in the study that they were comparable to the
17 BRI rates with those loadings.

18 MR. OWENS: I would offer 638.

19 JUDGE WALLIS: Is there an objection?

20 MR. TRAUTMAN: I would object for the
21 reasons stated previously.

22 MR. TROTTER: I will object on relevance
23 grounds.

24 JUDGE WALLIS: Mr. Owens.

25 MR. OWENS: Well, I think it's relevant,

03713

1 Your Honor, to the standard that U S WEST is being
2 held to here that the law as exemplified by this
3 exhibit does not require such a rigid standard of this
4 Commission and I think it's relevant for purposes of
5 demonstrating that that standard is unreasonably harsh.

6 JUDGE WALLIS: Well, my concern about the
7 exhibit is the same as my concern about the
8 examination, that is, that the witness is not familiar
9 either with this document or this procurement or with
10 procurement in general, and is not involved in the
11 preparation of the document, and I think it's so
12 tenuous that I would sustain the objection.

13 MR. OWENS: Like to make an offer of proof
14 that the public record representing a procurement by
15 this Commission that demonstrates that a much more
16 lenient standard exists for work involved indirectly
17 in the provision of telecommunications service and U S
18 WEST is being asked to -- than U S WEST is being
19 held to.

20 JUDGE WALLIS: Your offer is noted.

21 Q. Like to talk now about your restructuring
22 testimony. With the corrections you've made I'm just
23 trying to understand, on the one hand at least,
24 initially what your position is. As I understand it,
25 with the revised testimony and Exhibit 637, you are

03714

1 proposing to remove the test year expenses, the
2 savings for calendar '94 and subject to check the rate
3 base for additions for calendar '94. Just so that the
4 record is clear, these rate base additions represent
5 property that was used and useful in providing
6 telecommunications service in Washington during the
7 test year; is that correct, or at least subject to
8 what the applicable period that those dollars
9 represent is?

10 A. Yes. You referred to Exhibit 637. Was it
11 636?

12 Q. 636, you're right. I'm sorry. Would you
13 accept subject to check that there's only 2 percent of
14 the restructuring costs are represented by severance
15 pay?

16 A. I will accept that subject to check.

17 Q. And at page 22, Exhibit 631, you talk about
18 the continuing effect of prior force reduction
19 programs, and would that be simply that U S WEST's
20 labor costs are lower than they otherwise would have
21 been?

22 A. Well, I don't know if -- I mean, what the
23 testimony says is that the actual numerical data for
24 the test year period as well as 1995 reflect the
25 impact of these plans, and I don't know whether they

03715

1 reflected costs from those plans or savings. And that
2 would just be on an expense basis. The retained
3 earnings of the company would reflect the entire
4 impact of any of those adjustments.

5 Q. Are you proposing to remove the restructure
6 costs because you expect that there will be some gain
7 in productivity in some later period? Is that one
8 reason?

9 A. Yes. The company has predicted savings,
10 ongoing savings, from this program that in short order
11 will exceed the entire cost of the program.

12 Q. Those savings that you refer to were shown
13 on a total company basis, correct?

14 A. That's correct.

15 Q. The company hasn't provided nor has it been
16 asked for any projection of savings on a Washington
17 intrastate basis; is that correct?

18 A. I don't know if it's been asked for one but
19 I will accept that it hasn't subject to check and it
20 wasn't provided one that I know of.

21 Q. There was also some reference in the
22 discussion at page 22 that certain outcomes would
23 happen if U S WEST were deregulated or under a price
24 cap scheme. You're not intending to suggest that you
25 know for a fact that U S WEST will be deregulated or

03716

1 under a price cap at any particular time; is that
2 correct?

3 A. No. I'm not assuming that or trying to say
4 that.

5 Q. Now, have you presented any kind of overall
6 earnings or attrition analysis that includes
7 productivity changes as well as other changes in
8 variable costs for any future period?

9 A. No.

10 Q. Isn't it true that in the company's most
11 recent rate case before this Commission the Commission
12 rejected piecemeal consideration of productivity
13 effects?

14 MR. TROTTER: Excuse me. Counsel, are you
15 referring to the complaint case in 1989?

16 MR. OWENS: No, sir. Rate case, the one
17 that went to a Commission order in a contested
18 proceeding. That would have been U-82-19.

19 MR. TROTTER: I assumed that the '89 case
20 went to an order and was contested.

21 MR. OWENS: Well, it settled.

22 MR. TROTTER: It was contested before it
23 settled. Thank you for the clarification.

24 A. I'm not familiar with that order.

25 Q. Would you accept subject to check that

03717

1 that's true?

2 A. Yes.

3 Q. And in that order the Commission indicated
4 that it would only consider productivity effects in a
5 context of an overall earnings and attrition analysis?
6 Can you accept that too?

7 A. Yes.

8 Q. Finally, I would like to talk about the
9 Exhibit 632. Now, I think you mentioned that the
10 company gave you information using 1994 service that
11 were also provided in 1990; is that right?

12 A. What the company gave us was a response to
13 a data request which asked for information on four
14 categories of costs, and the response to the data
15 request is basically what you see here and it stated
16 that that information was only available on a calendar
17 year basis and so that's what was provided.

18 Q. It would be important, wouldn't it, to make
19 sure that the way you used the information that the
20 services in this exhibit were comparable to the
21 services that were studied in the value studies in
22 1988 and 1990?

23 A. Yes, it would be important.

24 Q. Did you do that? Did you compare the
25 services that were included in the value studies to

03718

1 this list of service?

2 A. No, I didn't do that.

3 Q. Can you accept subject to check that
4 services -- substantial numbers of services including
5 on the second page from 161 BR through 162 RG and
6 340 through 385, and on the third page 420420MT 440
7 and 750 MV through 895 were not included in the
8 earlier studies?

9 A. I can accept that.

10 Q. So mathematically your adjustment assumes
11 that the same relationship between the Dane Zimmerman
12 and Pan Am costs and BRI's costs that existed for the
13 services that were provided and studied in those
14 earlier studies applies to these services; is that
15 correct?

16 A. Mathematically we based our adjustment on
17 the '88, so, yes, that would be correct.

18 (Discussion off the record.)

19 Q. Returning again to the question of the
20 overheads on the 1990 study for the alternative
21 vendors, you indicated in your prior testimony that
22 the overheads in the 1988 study were not quantified
23 but they were represented as being roughly
24 approximate to the BRI loadings; is that correct?

25 A. That's what the executive summary said,

03719

1 yes.

2 Q. And your testimony that the procedure
3 followed in the 1990 study was to double count the
4 loadings on the alternative vendors but not to double
5 count the loadings on BRI; is that right?

6 A. Well, what ended up happening was that the
7 labor rate used for the alternative vendors from the
8 '88 study included overhead loadings that were not
9 included in the BRI actual labor costs that were
10 compared to them in the 1990 study. Now, I don't know
11 if they were doubled dollar for dollar or if some of
12 them were doubled and some not or what, because the
13 way the studies were done was so different with one
14 study loading overheads into labor rates and the other
15 study not doing that.

16 Q. Well, the only variables that were changed
17 were the labor rates between the two years. Isn't
18 that true?

19 A. The labor costs were the only variable that
20 was changed and the method of doing the study was
21 changed so that the overheads were loaded as whole
22 dollar amounts in the 1990 study and not loaded as an
23 addition to the labor rate itself.

24 Q. And did the relative position of BRI change
25 significantly compared to the two alternative -- to

03720

1 the alternative vendors in the 1990 study?

2 A. Yes, it did.

3 Q. Would it have changed -- strike that. The
4 overheads were 24 percent of the alternative vendors'
5 service, and wouldn't you expect that if the second
6 application of that factor had occurred that BRI would
7 have been far and away shown to be the most efficient
8 provider?

9 A. No. The overheads for the alternative
10 vendors in the 1988 study, to my knowledge, were not
11 quantified. The labor rates that were used in that
12 study and obtained from those vendors were stated by
13 Coopers and Lybrand to be equivalent to the labor
14 rates used for BRI with the 25 percent loading from
15 BRI costs.

16 MR. OWENS: Thank you. That's all.

17 JUDGE WALLIS: Mr. Trotter, do you have any
18 questions?

19 MR. TROTTER: No.

20 JUDGE WALLIS: Mr. Nichols.

21 MR. NICHOLS: No questions.

22 COMMISSIONER HEMSTAD: No.

23 COMMISSIONER GILLIS: No.

24 JUDGE WALLIS: Mr. Trautman.

25 MR. TRAUTMAN: One redirect.

03721

1

2

REDIRECT EXAMINATION

3 BY MR. TRAUTMAN:

4 Q. You were asked a question concerning your
5 speaking to company management to determine
6 efficiencies regarding affiliated interests. Do you
7 recall that?

8 A. Yes.

9 Q. Were you provided a memo from the company
10 stating in part that the company's purpose was to
11 support regulatory strategies to maximize recovery of
12 affiliated interest expenses?

13 A. It wasn't a memo. It was the job
14 description for a U S WEST C contract manager.

15 Q. And do you recall receiving that?

16 A. Yes, I do.

17 MR. TRAUTMAN: Nothing further.

18 JUDGE WALLIS: Let's be off the record for
19 just a minute.

20 (Discussion off the record.)

21 JUDGE WALLIS: Let's be back on the record,
22 please. Ms. Strain, do you have a correction to the
23 errata sheet?

24 THE WITNESS: Yes, I do. On page 2 of my
25 errata sheet on the third line from the bottom the

03722

1 reference to page 24 should be page 25.

2 JUDGE WALLIS: Is there anything further
3 for the witness? Let the record show there is no
4 response. Ms. Strain, thank you for appearing.
5 You're excused from the stand.

6 I wanted to note for the record that the
7 company has provided a complete revised copy of
8 Exhibit 485C that has been received and the document
9 that was distributed today incorporating the revisions
10 and corrections will be marked as the official
11 exhibit. All parties have been provided copies and if
12 there is any discrepancy between what the party
13 believe the document should contain and what it
14 actually does contain, I would like to hear that on
15 Monday.

16 I am not positive that we dealt with
17 Exhibit 189 on the record. I would like to do that
18 now to make sure. The company asked the Commission to
19 reserve ruling on 189 pending its decision whether to
20 offer appended materials. The company has decided
21 that it does wish to offer the appended materials, has
22 provided a copy of Exhibit 189 that is complete with
23 those materials and there's no objection to its
24 receipt and it is received in evidence.

25 I also am advised that the Commission staff

03723

1 wishes to offer some revisions to Mr. Lundquist's
2 materials; is that correct?

3 (Admitted Exhibit 189.)

4 MR. SMITH: That's correct, Your Honor.

5 Last Monday night Mr. Lundquist made some oral
6 revisions to his prefiled testimony that were made on
7 the record. Mr. Lundquist went back and looked at his
8 backup papers again and those of the company and
9 determined that those that he made orally need not have
10 been made.

11 Consequently, we have provided to the
12 company earlier today and all the parties later an
13 errata which explains the retracting of the correction,
14 if you will, and it's unfortunate but that's where we
15 are, and to make the record accurate, at least as far
16 as the staff position goes, it's necessary to submit
17 this. I would ask that it be given an exhibit number
18 and be admitted into the record.

19 I talked to Mr. Owens and have agreed to
20 have Mr. Lundquist available by telephone to take cross
21 on the subject of this errata sheet and will make
22 himself available Monday or Tuesday next week if that
23 is necessary.

24 MR. OWENS: I don't know that we have an
25 issue with this, but I think it's a little premature.

03724

1 I mean, I have the sheet. I haven't been able to talk
2 to our witness about it to see whether we have a
3 problem with it but it seems to me that procedurally
4 having this witness available by phone for
5 cross-examination, if we have cross-examination, is
6 really not proper. I mean, the record is what it is.
7 We're being asked to change the record.

8 If we have cross, and I'm not saying we do,
9 we should have the right to do that in person.

10 JUDGE WALLIS: Very well.

11 MR. OWENS: We will try to make known to
12 staff tomorrow what our review of the document tells
13 us about whether we have an issue. I mean, it may be
14 that we will be happy to stipulate it in without cross
15 or without any further ado.

16 JUDGE WALLIS: Very well. I'm going to
17 suggest that we just not even mark it at this time and
18 that we take it up on Monday along with other
19 administrative matters.

20 MR. OWENS: That will be fine.

21 JUDGE WALLIS: Is there anything else that
22 we need to touch on before we conclude today's
23 session? I would like us to begin at 8:15 on Monday
24 and take up administrative matters and then begin with
25 witness Griffith as soon as those matters are

03725

1 complete. Is that acceptable to the parties? It
2 appears that it is and today's session is
3 concluded.

4 (Hearing adjourned at 5:12 p.m.)

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25