

1 Q. What is the source of the “network externalities” that exist in the case of Dex?
2 A. Dex was a protected monopoly “first mover.”⁶³

3 **Q. DID THE COMPANY ACQUIRE THE “FIRST MOVER” ADVANTAGE BEFORE IT**
4 **CAME UNDER EFFECTIVE COST-OF-SERVICE REGULATION IN 1923?**

5 A. Yes. My direct testimony explains how the Company established its telephone operation and it
6 directory operation over a 40 year period leading up to 1923.

7 **Q. DR. SELWYN ALLEGES THE DIRECTORY OPERATION WAS A “MINUTE**
8 **ENTERPRISE BEFORE IT BECAME ASSOCIATED WITH THE REGULATED**
9 **TELEPHONE MONOPOLY”⁶⁴ DO YOU AGREE?**

10 A. No. My direct testimony recounts that the Company had a directory operation as early as 1893,
11 and probably earlier. The directory operation was commensurate in size with the size of the
12 telephone business of the day. I do not accept that either the directory operations or the telephone
13 operations that it supported were minute enterprises in their day. They were certainly large enough
14 and important enough that the Washington legislature saw fit to bring them under the jurisdiction of
15 a state regulatory body and the federal government saw fit to nationalize them in 1918.

16 **Q. UNDER THE PRINCIPLES OF *DCC* AND *IPTA*, DO RATEPAYERS OWN THE**
17 **“FIRST MOVER” ADVANTAGE?**

18 A. No. Under *DCC* and *IPTA*, the shareholders own the “first “mover” advantage,” not the
19 ratepayers. Ratepayers bore no risk of capital losses on the “first mover” advantage and did not
20 pay rates that included any “first mover” expenses.

⁶³ Selwyn, page 87, lines 18 to 20.

⁶⁴ Selwyn, page 62, lines 2 to 4.