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APPEARANCES (Cont.)

WITA, by ROBERT A. FINNIGAN, Attorney at Law, 1201 Pacific Avenue, Suite 1900, Tacoma, Washington 98402.

AT&T, by GREGORY J. KOPTA, Attorney at Law, 2600 Century Square, 1501 Fourth Avenue, Seattle, Washington 98101-1688.

PTI COMMUNICATIONS, by DEBORAH JOHNSON HARWOOD, Attorney at Law, 805 Broadway, Vancouver, Washington 98668.

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

2 JUDGE HAENLE: The hearing will come to
3 order. This is a third session in docket No.
4 UT-940700 and 0701. This hearing is taking place on
5 February 21, 1995 before the commissioners. The
6 purpose of the hearing today is for the parties to
7 present to the commissioners their proposed settlement
8 agreement. The last time we met was for a pre-hearing
9 conference. We recessed at the beginning of the
10 pre-hearing conference and then ended up not
11 reconvening that day at all because the parties had
12 indicated that they were very close to settlement,
13 were enthusiastically pursuing settlement and needed
14 the additional time. As a result of that, we had
15 originally agreed to have another settlement
16 conference but that you folks told me that that was
17 going to be unnecessary because you had actually then
18 reached the written agreement, so we cancelled that.

19 Let's take appearances. If you've already
20 given your appearance, you can just indicate your name
21 and your client's name. If you're new, please give
22 your complete name and address.

23 MS HARWOOD: Ed Shaw for U S WEST.

24 MS. HARWOOD: Deborah Harwood in place of
25 Cal Simshaw today for PTI Communications.

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1 JUDGE HAENLE: Address, please.

2 MR. SHAW: 805 Broadway, Vancouver,
3 Washington 98668.

4 MR. FINNIGAN: Rick Finnigan appearing on
5 behalf of the Washington Independent Telephone
6 Association.

7 MR. KOPTA: Greg Kopta here for AT&T of the
8 Pacific Northwest, Incorporated.

9 MR. MANIFOLD: Rob Manifold for public
10 counsel.

11 MR. TRAUTMAN: Greg Trautman for Commission
12 staff.

13 JUDGE HAENLE: I notice we don't have MCI
14 or GTE. Those are the two that were not here last
15 time. I contacted both of them to see if they would
16 be coming today and they indicated they were not
17 planning to attend today's session and that they were
18 aware of the settlement being proposed.

19 All right. In the way of preliminary
20 matters, the settlement was filed with the Commission
21 last Friday, distributed at that time. I asked where
22 the original of the settlement agreement had ended up
23 and actually went down and got it from the records
24 center just now. It's my understanding that you
25 brought with you, Ms. Harwood, an original of a

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1 signature page for Mr. Simshaw's signature; is that
2 right?

3 MS. HARWOOD: That's correct.

4 JUDGE HAENLE: What I've done is to take
5 out of the original document that was filed last
6 Friday the signature page, which was a fax, and I have
7 inserted the original signature page and stapled it
8 back together. If anyone has an objection to that
9 process, please let me know.

10 I will assume there is no objection, and
11 the document then has original signature pages with
12 it.

13 MR. SHAW: Your Honor, there's, sorry to
14 say, one important typo that needs to be corrected in
15 the original that was just pointed out to me today.
16 On page 3, line 3 the reference to RCW chapter 80.16
17 should be 80.12.

18 JUDGE HAENLE: If the parties have no
19 objection, I will make that correction on the
20 original. I will initial beside it and assume if you
21 have any objection to that you would speak up now.

22 Hearing no objection we will use that
23 process. Everybody make that correction on their own
24 copy.

25 My first question to you before we went on

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1 the record is what is the record going to be in this
2 matter under the settlement as you're submitting it.
3 We have premarked the company's prefiled just for
4 identification. We have a full set of prefiled other
5 materials. I need to know what the record will
6 consist of other than the settlement agreement.

7 MR. SHAW: I think there is agreement that
8 the record should consist of, of course, the agreement
9 itself and all the transcripts of the hearings
10 including the public hearings that are upcoming, the
11 typical public counsel exhibit of written submissions
12 to him, and the two petitions of the petitioning
13 companies, as well as the petitions for intervention,
14 but that because this settlement was accomplished
15 before anything else was admitted into evidence that
16 the record should not consist of anything more than
17 I've just mentioned.

18 JUDGE HAENLE: Did I understand that there
19 is some disagreement with that among the parties?

20 MR. SHAW: It's been proposed by staff and
21 public counsel that a more complete record would
22 consist of the prefiled testimonies. That causes a
23 good deal of concern to myself. That would be
24 uncross-examined testimony. It is not sworn in any
25 way, and the whole point of the settlement was to

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1 avoid trying the case, and the testimony of the
2 parties is replete with positions that are contrary to
3 the settlement agreement, and so if we're going to
4 settle this case and if the Commission is going to
5 settle the case, we need to establish a record here
6 today sufficient for the Commission to exercise its
7 independent judgment that the settlement is
8 appropriate and should be accepted, but that we should
9 not put in all the prefiled testimony which raises
10 more questions than answers. We have here both of the
11 company witnesses and the staff witness available to
12 explain or to elaborate on the settlement agreement
13 itself.

14 JUDGE HAENLE: Mr. Manifold.

15 MR. MANIFOLD: It had been my inclination
16 that it would probably be of benefit to the record, to
17 the Commission and to the highly unlikely event in any
18 subsequent court review to have the record include
19 the prefiled testimony noting that it had not been
20 cross-examined, had not been tested, simply
21 represented the original statements by the respective
22 witnesses. In my view -- I mean, we haven't reached
23 agreement on that. It's sort of unfortunate to start
24 a settlement presentation on the one issue we didn't
25 reach agreement on, but be that as it may, in my view

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1 it's partly up to the Commission in whether it feels
2 it needs that additional information in the record in
3 order for it to reach a sound decision on this or not.
4 If it doesn't feel that it does then it's okay with me
5 not to put it in.

6 JUDGE HAENLE: Mr. Trautman.

7 MR. TRAUTMAN: Staff would concur with the
8 remarks of Mr. Manifold. I also was of the view that
9 it would provide a more complete record should the
10 commissioners find that to their benefit in viewing
11 the entire transaction and then in viewing the
12 settlement in that light. I, too, think it's within
13 the discretion of the Commission to decide whether it
14 would be to their benefit to admit the prefiled
15 testimony, but that would be our recommendation.

16 JUDGE HAENLE: Any intervenor have a
17 comment?

18 MS. HARWOOD: On behalf of PCI Telecom, I
19 concur with Mr. Shaw's position that to enter all
20 prefiled testimony that has not been cross-examined
21 and that it is really not relevant here, and I am
22 concerned actually in a Court of Appeals scenario
23 having basically un rebutted prefiled testimony in
24 record. I think it's best to go with the actual
25 settlement agreement, the transcript of the public

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1 hearing and whatever testimony the Commission should
2 desire today from the witnesses. We, too, have our
3 witness from Pacific Telecom as well.

4 JUDGE HAENLE: Well, we have in the past,
5 at least I know with the depreciation case, addressed
6 the problem of the testimony not being sworn by having
7 counsel submit affidavits adopting the testimony and
8 exhibits by their witnesses. You're right, the
9 material would not be cross-examined. I think the
10 Commission's concerns may very well be that the
11 statement -- the settlement agreement on its own does
12 not contain enough information for the Commission to
13 be able to evaluate whether the public would best be
14 served by adoption of the agreement. I might note
15 also, just procedurally, that because this was just
16 filed on Friday and middle of the afternoon on Friday
17 that I'm not sure that the commissioners have had the
18 opportunity to formulate the questions they might have
19 about what is necessary in terms of background for
20 them to evaluate this document. I kind of thought it
21 would come in giving them a little more lead time to
22 look at it, but we need to keep that in mind as well.

23 I am concerned that we do -- here we are
24 starting a hearing on settlement with an agreement in
25 front of us and no agreement on what the record itself

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1 should be. Mr. Shaw, you had something?

2 MR. SHAW: Well, I think it's pretty
3 straightforward. The record is what it is. What
4 we're talking about now is whether the parties should
5 stipulate that some additional matters should be in
6 the record. The whole point of settling this case
7 early was to avoid trying it. If we're going to put
8 in the adversarial positions of the witnesses into the
9 record in the form of evidence, that suggests that the
10 Commission wants to compare the settlement with the
11 positions of the parties and see how much they moved
12 and so forth. That doesn't seem to be appropriate.
13 The whole point of the incentive for settling is to
14 get these things settled, of course subject to the
15 Commission overview, and there is no party in this
16 case that is opposing the settlement, so there's just
17 no need to go forward with testimony on the record.
18 It puts us in a difficult position of the Commission
19 demanding that we waive cross-examination and we've
20 got a right to cross-examine that testimony and we
21 fully intended to if it became part of this record.

22 JUDGE HAENLE: That's why I asked what the
23 record is. Apparently you are very far apart on what
24 the record is. You are correct, Mr. Shaw, that the
25 record is to this point what it is. My question was

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1 what is it going to be to present to the
2 commissioners. Commissioners?

3 COMMISSIONER HEMSTAD: Make a couple of
4 comments. I'm inclined to, in an uncrystalized
5 opinion, agree with the two companies that perhaps we
6 don't need the original testimony or the prefiled
7 testimony in record, but I find reading the document,
8 it's of interest, but it's relatively opaque. I mean,
9 it doesn't -- the Commission still has a duty to
10 conclude that the settlement is in the public
11 interest, and so the question I have is what kind of
12 information or data could the parties provide that
13 doesn't intrude upon the kinds of negotiations that
14 have gone on to come to the settlement that would give
15 us a better handle on how the several provisions in
16 here ultimately benefit the ratepayers or the public
17 or such things as the relative allocation of benefits
18 between the ratepayers and shareholders. I'm somewhat
19 at a loss to know what questions to ask in reviewing
20 the settlement document. Those are some open-ended
21 comments. Maybe the parties have some response to
22 that.

23 MR. MANIFOLD: Your Honor, if I may, maybe
24 -- I think we had all anticipated that at least one if
25 not more witnesses would be presented today in support

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1 of the settlement, that they would make statements
2 about what's in the settlement, would be available to
3 answer or to speak to and answer the sort of questions
4 that you just raised, commissioner Hemstad, and
5 perhaps the issue of what else ought to be in the
6 record would be better deferred until the end of
7 today's hearing after those -- that information has
8 come in and the Commission can appraise that
9 information and then see if there's more that is
10 desired.

11 CHAIRMAN NELSON: Or after the public
12 hearings.

13 MR. MANIFOLD: Could be.

14 CHAIRMAN NELSON: Just adding my two cents
15 worth. Having accepted some settlements and then
16 having had to interpret them years afterwards one
17 always likes to have some sort of quote-unquote
18 legislative history to try to interpret the document
19 and, as Commissioner Hemstad just said, these
20 sentences all obviously reflect meetings and
21 negotiations back and forth underneath them where it's
22 helpful to try to elucidate what led to each sentence.
23 And I'm just thinking that perhaps after the
24 culmination of the public hearings might be good to
25 have some summary statement from each of the parties'

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1 witnesses in the record about why it's in the public
2 interest.

3 MR. SHAW: We would certainly be willing to
4 do that. The way this case seemed to shape up to us
5 is that there was no real issue, as the settlement
6 agreement states, that PTI isn't a fully suited
7 company to provide service in these geographic
8 territories. The issues really revolve around the
9 type and price of service that PTI is going to provide
10 in the future and the disposition on the books for
11 regulatory purposes of the proceeds on U S WEST's
12 side, and those are really the only two issues, and
13 the detailed conditions address those two issues, so I
14 think it becomes apparent that the companies have
15 responded to those two issues in what they're willing
16 to do, and apparently to the satisfaction of all the
17 other parties, so I think we can focus this and
18 certainly make it clear to you three on what the
19 companies have agreed to do and you can make your own
20 independent decision on whether that is adequate to
21 address those two issues. This case really becomes
22 pretty simple in that regard.

23 MS. HARWOOD: On behalf of PTI we concur
24 as well. If the Commission decides that they desire
25 summary statement we're happy to do that, happy to

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1 provide a statement, after hearing the testimony
2 today.

3 JUDGE HAENLE: Commissioner.

4 COMMISSIONER GILLIS: I'm willing to remain
5 flexible on this and see where we end up. I do think
6 that at this point need a little more than what's in
7 the settlement, but let's find out what people have to
8 say today and after the public hearings.

9 JUDGE HAENLE: I understand it had been
10 kicked around a little too as to whether a provision
11 should be made that once the public hearings are over
12 if the Commission has any questions of the companies
13 in particular, but perhaps of the other parties as
14 well that are raised by the public, that they would
15 want to have the opportunity to ask those questions,
16 and this might tie in very neatly with that if there
17 were some other brief stage that took place after the
18 public hearings.

19 Well, let's keep that in mind.

20 COMMISSIONER HEMSTAD: May I ask one other
21 question. Is it the intention at the public hearings
22 to have distributed the proposed settlement so that
23 the public will be commenting on that?

24 MR. SHAW: We can certainly do that. We of
25 course anticipate that the public hearings will be

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1 around concerns about what kind of service at what
2 kind of rates in the future and the settlement
3 certainly addresses that very, very specifically, so
4 we'll be glad to do that.

5 Also, the settlement agreement, if you
6 haven't had a chance to read it, specifically
7 addresses the fact that the parties have agreed that
8 if there are any new issues raised by members of the
9 individual public that those are up for discussion.
10 Presumably be around specific individual customer
11 service problems that we'll address when and if we
12 know about them.

13 MR. MANIFOLD: If I may address that, too.
14 Typically my office sends a letter to anybody who has
15 contacted the Commission or our office about a
16 particular case describing what the issues are so that
17 they can have that information to enable them to make
18 comment at the public hearing. In this instance the
19 date to send that out was just in the middle of when
20 we were negotiating this so that letter went out and
21 did not reflect, because it could not, that a
22 settlement had been reached. However, the issues that
23 were highlighted in the letter were the issues that
24 were the basis for the settlement so those factual
25 issues are in that, and it was my expectation to

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1 prepare a supplement to distribute at the hearings
2 outlining the nature of the settlement so that people
3 could speak to that specifically.

4 MR. SHAW: Another piece of information the
5 public will probably want to be aware of is that since
6 this settlement and since counsel's letter U S WEST
7 has filed a rate case to raise its rates in these
8 areas as well as all other areas it serves, so that is
9 another fact that plays in this case.

10 JUDGE HAENLE: In past settlement hearings
11 we've had someone from one of the parties describe
12 generally what the settlement is about and we had
13 asked you to have a witness available to answer
14 questions about the settlement. I don't know who was
15 going to be that person to describe the settlement. I
16 assume you've talked about it among yourselves.

17 Everyone is pointing at Mr. Spinks.
18 There's probably reason for that. Maybe it would be
19 best if you came up to the stand unless you need
20 closer contact with Mr. Trautman.

21 Whereupon,

22 THOMAS SPINKS,
23 having been first duly sworn, was called as a witness
24 herein and was examined and testified as follows:

25 JUDGE HAENLE: Move the microphone up to be

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1 sure that everyone can hear you.

2

3

DIRECT EXAMINATION

4 BY MR. TRAUTMAN:

5 Q. Mr. Spinks, could you please state your
6 name and give us your business address.

7 A. Yes. I'm Thomas L. Spinks. My business
8 address is 1300 South Evergreen Park Drive Southwest,
9 Olympia, Washington 98502.

10 Q. And by whom are you employed and in what
11 capacity?

12 A. I'm employed by the Washington Utilities
13 and Transportation Commission as a utilities rate
14 research specialist.

15 Q. And what is the purpose of your testimony
16 today?

17 A. The purpose of my testimony is to present a
18 summary of our settlement agreement.

19 Q. And could you please present a summary of
20 the settlement agreement and major portions thereof.

21 A. Yes. I'll be referring to -- I did prepare
22 a list of points so I make sure I don't miss any. In
23 preparing this I haven't followed through the
24 settlement line by line but rather I have grouped the
25 points of the settlement into three areas which were

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1 of concern to us, and those were what happens to the
2 existing customers of U S WEST, what happens to the
3 existing customers of PTI and, most importantly, what
4 happens to the customers in the sale exchanges. With
5 regard to the existing customers of U S WEST, the
6 settlement agreement provides that the company will
7 increase the intrastate depreciation reserves by 16.6
8 million dollars and will undertake some 4.1 million
9 dollars in rural service and infrastructure
10 improvements. These actions we believe provide clear
11 benefits to the existing U S WEST customers and in
12 particular the rural customers remaining with U S
13 WEST.

14 With regard to existing PTI customers, the
15 settlement agreement provides that PTI will not seek
16 any rate increase due to the sale for a five-year
17 period and will file a rate decrease -- and will file
18 for rate decreases during the last three years of the
19 five-year period if earnings exceed the authorized
20 return.

21 In addition, interexchange carriers are
22 assured that the access charge increase they will see
23 is offset by a U S WEST access charge reduction
24 filing. The PTI traffic-sensitive rates are also
25 capped at their current levels for the next five years

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1 and they have also committed to file a local transport
2 rate restructure that does not include a residual
3 interconnection charge and PTI will request that any
4 rate reductions undertaken that were previously
5 mentioned that may occur during the last three years
6 of the five-year period be directed first to access
7 charge reductions.

8 Finally, the provisions relating to the
9 customers in the sale exchanges. First, the customers
10 in those exchanges will continue to receive all
11 services they receive today at current U S WEST rate
12 levels for the next two years. After that two-year
13 rate freeze, the rates will be integrated over the
14 next three years to PTI rate levels. Second, PTI is
15 committed to spend some \$25 million over the next five
16 years to upgrade the exchanges to insure that modern,
17 reliable and efficient telecommunications services
18 occur well into the future. These upgrades also
19 include the provision of SS7 and CLASS services in
20 those exchanges.

21 Third, during the first two years after
22 approval of the sale, PTI will undertake to insure
23 that the sale exchanges are all brought into
24 compliance with Commission service quality rules. Any
25 exchange not in compliance after the two-year period

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1 will not be subject to any rate increase until it is
2 brought into compliance.

3 Fourth, PTI has committed to eliminate the
4 foreign exchange services to the Paradise Estates
5 customers in the Ashford exchange and to file the EAS
6 study for the Ritzville, Benge, Lind, Washtunca
7 exchange cluster.

8 And fifth and finally, the agreement at
9 paragraph 14 recognizes that the public hearings have
10 not yet been held and that the Commission may require
11 additional actions on the part of the companies.

12 Q. Mr. Spinks, is it staff's position that the
13 settlement agreement as drafted would be consistent
14 with the public interest?

15 A. Yes, it is.

16 Q. And is it staff's recommendation that the
17 settlement agreement be accepted by the Commission?

18 A. Yes.

19 MR. TRAUTMAN: Your Honor, I have no
20 further questions. Mr. Spinks would now be available
21 for any questions by the commissioners.

22 JUDGE HAENLE: Commissioners.

23

24 EXAMINATION

25 BY COMMISSIONER HEMSTAD:

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1 Q. From the sale how will U S WEST
2 shareholders benefit?

3 A. I believe that, one, the accounting for the
4 gain on the sale will be in accordance with the FCC
5 requirement which essentially books that gain on the
6 sale below the line, so the shareholder receives the
7 cash that is generated by the sale.

8 Second, there were I believe approximately
9 \$10 million in deferred taxes associated with that
10 property which also would be closed out and go to the
11 benefit of the shareholder. I may not be expressing
12 that properly but the company may want to clarify
13 that if I'm not.

14 Q. Is that cash generated by the sale, is that
15 confidential to the public information?

16 A. I'm sorry, didn't hear.

17 Q. You said the shareholders will receive the
18 cash generated by the sale. Is that confidential
19 information or is that public or is that part of the
20 filing itself?

21 A. I don't think that that's a matter of
22 public or private. It's a result of the sale being
23 booked the way it's been proposed to be booked.
24 That's the way it would occur.

25 MR. SHAW: Your Honor, Mr. Commissioner, if

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1 I could interject. The company has waived -- I
2 believe also PTI has waived -- any confidentiality
3 claim on the profit or the gain on the sale over the
4 book value of the assets being sold, so we have no
5 problem with that being on this record if you want it
6 to be on this record.

7 CHAIRMAN NELSON: What is that amount?

8 MR. SHAW: Precise number I will need to
9 look up but it's \$17 million and an odd amount here.

10 JUDGE HAENLE: Do you have that figure, Mr.
11 Spinks?

12 THE WITNESS: Yes, I do. \$17.4 million.

13 MR. SHAW: That's correct.

14 JUDGE HAENLE: Thank you.

15 Q. And I don't understand, what is the
16 relationship between that figure and then the
17 reference to the \$10 million in deferred taxes? Is
18 that in addition or --

19 A. Yes, it would be in addition.

20 Q. So between the two figures it's
21 approximately \$27 million of benefits. Is that the
22 way to phrase it?

23 A. Yes.

24 Q. Jumping around a bit. In the section
25 paragraph 9 at line 22 it says, "PTI agrees to make

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1 offsetting, revenue neutral, filings concurrent with
2 the rate integration filings so long as the company
3 is earning at or above its authorized rate of return."
4 What kind of a proceeding would that be? Would that
5 be a contested proceeding or --

6 A. I envision that as being a miscellaneous
7 tariff filing where they would file -- first of all,
8 we would identify whether or not earnings -- at the
9 time they go to integrate the rates -- excuse me. At
10 the time they go to integrate rates they will have to
11 come in to request that and at that time we would look
12 at the earnings to see whether or not an offset filing
13 was required.

14 Q. In paragraph 12, page 6, line 22, says,
15 "PTI will invest at least \$25 million in capital
16 improvements in the purchased exchanges during the
17 first five years." Is there any spelling out of more
18 precisely than is listed in this paragraph itself
19 how that money would be invested?

20 A. In responses to staff data requests I
21 believe the company did provide us with a breakdown by
22 a type of plant switching transmission, et cetera,
23 that it anticipated that it would need to spend the
24 monies on. They will also be filing reports with us
25 periodically on the progress of these, the upgrading,

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1 on an exchange by exchange basis.

2 Q. With regard to U S WEST's proposed
3 upgrades, I missed the figure that you referenced.
4 What is that total amount for rural exchange
5 improvements?

6 A. The company estimates it's -- it's attached
7 A to the settlement agreement and the CLASS costs are
8 about two and a half million and the signal system 7
9 costs at 1.6 which totals \$4.1 million.

10 Q. What are the overall objectives of those
11 capital investments? What are they intended to
12 accomplish?

13 A. The signal system 7 investments are
14 prerequisite and fundamental to any advance
15 intelligent network capabilities coming to those rural
16 areas. One of the benefits of advanced intelligent
17 network would be number portability, for instance.
18 It's being proposed by some of the alternative
19 transport carriers. The CLASS services, which class
20 is an acronym for custom local areas signaling
21 services I believe, are the caller ID, last call
22 return, call trace, type services, which these rural
23 customers would not otherwise receive because the
24 economics may not be as great in those rural areas to
25 have the company -- for the company to have incentive

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1 to otherwise place those services out there. So, both
2 the customers of all those exchanges will benefit by
3 having those services available to them as well as
4 forwarding the Commission's goal of bringing
5 competition to the state.

6 Q. Will the 25 million dollars investment by
7 PTI accomplish the same objectives?

8 A. Yes. They have not specifically stated
9 signal system 7 in their work documents that they
10 provided. However, you can't provide CLASS services
11 without that, so that has to be fundamental, one of
12 the changes that they will have to be bringing in out
13 there.

14 COMMISSIONER HEMSTAD: That's all for now.
15 I'm sure there are other questions.

16

17 EXAMINATION

18 BY COMMISSIONER GILLIS:

19 Q. One of the benefits proposed by U S WEST is
20 to provide signal system 7 capability in all central
21 offices remaining after the transfer. Is it the
22 staff's opinion that those investments would not take
23 place if the sale were not to occur?

24 A. Yes. We don't think the economics are
25 there to prove in that kind of investment with given

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1 the penetration ratios they've achieved in even the
2 rural areas where it's cheaper -- the cheapest per
3 line to provide.

4 Q. So that would be a direct benefit of the
5 sale?

6 A. We believe so, yes.

7 Q. A two-year freeze on rates is proposed for
8 the sale area. What's the rationale for the two-year
9 time period?

10 A. I'm not sure that -- I think what we wanted
11 was a period of time in which the customers would
12 adopt or adapt to, if you will, having a new phone
13 company without having bad experiences, on the one
14 hand; and on the other, in discussing with the
15 company's engineers the existing service quality
16 problems in those exchanges they had indicated to us
17 that it would take them the better part of two years
18 to get those problems corrected. We did not believe
19 it would be at all appropriate to begin integrating
20 those rates when customers weren't receiving basic
21 service quality that the Commission had set forth in
22 its rules.

23 Q. In staff's evaluation of whether or not the
24 sale is in the public interest, is there any
25 presumption that the U S WEST rates would have gone up

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1 in that two-year time period otherwise?

2 A. No, not really. That remains to be seen.

3 Q. So it's more you just felt that was a time
4 period that was necessary for the transition. I think
5 that's what I hear you saying.

6 A. Yes.

7 Q. You identified or in settlement agreement
8 that PTI -- in paragraph 13 "PTI will submit calling
9 pattern data and conduct a study for potential EAS
10 conversion for the routes from Bengo to Ritzville."

11 Do I understand that to mean that the current EAS
12 arrangement for that region would not necessarily
13 continue under the -- after the sale?

14 A. No. There may be some -- I don't know that
15 there are -- my understanding is there are not EAS
16 arrangements to this -- of this nature there today.
17 In staff looking at the -- one of the things we did in
18 evaluating this was to look at the exchanges and
19 discuss with other staff what sort, if any, of
20 historic kinds of service problems we had that
21 involved any of these exchanges, or concerns. And two
22 arose from that and one was this historical anomaly in
23 the Paradise Estates area where a customer on one side
24 of the river was paying I think \$37 a month for local
25 service because they, had to buy a foreign exchange

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1 from PTI and on the other side was U S WEST with \$9 a
2 month rate, and that created numerous complaints for
3 us over the years about that situation. With regard
4 to the EAS routes we knew that there was some people
5 out there who wanted EAS that did not have it today,
6 and so with regard to that one we had asked the
7 company to conduct a study and submit the data so that
8 we could consider that.

9 Q. When I left that area in November it was in
10 place at that time. There's EAS for -- I'm not sure
11 it's those exact boundaries but certainly the general
12 boundaries that are outlined there at this time.
13 That's why I asked the question whether the sale would
14 supersede the existing agreement or is it something
15 coming into question?

16 A. Yeah. I'm not familiar with those
17 arrangements out there. I know there have been
18 through the years different kinds of EAS arrangements.
19 I guess it would be my belief that to the extent the
20 current EAS rule and the arrangement it sets forth for
21 pricing and the like for those services would take
22 precedent over the existing arrangement, whatever, if
23 there's one, whatever that is out there. Maybe a
24 measured service type of an arrangement, for instance,
25 whereas under the current rule it would be a flat

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1 rate.

2 Q. And the settlement says PTI will cap
3 traffic-sensitive access charges for a period of five
4 years after the sale. I assume that doesn't prevent
5 decrease over the time period; is that correct?

6 A. That's correct. It would not prevent a
7 decrease.

8 COMMISSIONER GILLIS: That's all I have for
9 now.

10

11

EXAMINATION

12 BY CHAIRMAN NELSON:

13 Q. Mr. Spinks, what is the status of FCC
14 approvals of these sales?

15 A. I asked Mr. Smith about that several weeks
16 ago and at that time -- I haven't got a current
17 update, but I believe Mr. Simshaw is in Colorado and
18 not at our hearings today because they're closing
19 there on the Colorado sale, and that was the only
20 change that I was aware of. They anticipated for
21 Washington and Oregon, I believe, within 90 days.

22 Q. Anticipated what within 90 days approval?

23 A. That they could receive FCC approval and
24 anticipated closing here late summer, early fall of
25 1995.

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1 CHAIRMAN NELSON: Can I just make a
2 continuing bench request that once the FCC approves we
3 can find out about that.

4 MR. SHAW: Certainly. Mr. Moran could
5 address that also.

6 CHAIRMAN NELSON: Today?

7 MR. SHAW: Yes.

8 CHAIRMAN NELSON: I'll wait for him then
9 when he comes up.

10 Q. I'd like to know the status or if you know,
11 Mr. Spinks, the universal service fund arrangements
12 coincident with the sale.

13 A. I'm not familiar with any specifics of them
14 so --

15 JUDGE HAENLE: Maybe Mr. Moran can address
16 that.

17 Q. Now, in answer to Commissioner Hemstad you
18 said the staff had some data requests, and I think I
19 heard you say that you're generally aware of what the
20 specific upgrades for each exchange are that PTI has
21 promised to make. I'm wondering if it would be useful
22 for us to know in general what PTI is contemplating
23 doing in each of the exchanges. And I'm wondering if
24 it would be useful for the public to know that in time
25 for the public hearing. Do you know?

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1 A. Well, I think part of the problem with that
2 is that -- and at least at the time our discussions
3 were going on -- their engineers have not completed
4 their survey of what needs to be done yet so there are
5 some unknowns. They have committed to their best
6 guess at this time is \$25 million should be more than
7 enough to cover what they do run into. They know some
8 of their carrier systems will need to be replaced,
9 some cable reinforcements and the like, but perhaps
10 Mr. Smith can flush that out for you as to what the
11 specific information is that they will have by the
12 time the public hearings come up.

13 Q. Well, again, I think Commissioner Hemstad
14 called it opaque and I think it would help me decide
15 whether it's in the public interest to know a little
16 more specifically rather than just on a functional
17 basis what kind of upgrades PTI is intending to make,
18 if it knows at this time, exchange by exchange. If it
19 doesn't know it could say so, and then perhaps also,
20 paragraph 11 indicates that PTI will prepare and
21 submit a report to staff and public counsel
22 identifying the probable primary causes of trouble
23 reports and held orders. I just would like to see a
24 little more specificity about where the 25 million
25 dollars is actually going to be invested is what I'm

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1 driving at. So I don't know how to get at this but I
2 can make it a bench request now.

3 JUDGE HAENLE: I don't know what
4 information Ms. Harwood may have in terms of a witness
5 that might be able to --

6 MS. HARWOOD: Mr. Smith could address that.

7 JUDGE HAENLE: Great. Thank you.

8 Q. I was curious about what the IXC's get
9 here. I guess what I'm really curious about is you
10 indicated that there would be no residual interconnect
11 charge exacted from them by PTI. Has U S WEST made
12 any similar promises?

13 A. Unfortunately not, but this is probably the
14 wrong proceeding to extract that promise from them.
15 U S WEST has agreed to make an offsetting filing --
16 the interexchange carriers will see higher access
17 charge rate in those exchanges. However, U S WEST has
18 committed to, either through the interconnection or
19 rate case filings, or if neither of those result in
20 access charges, to make a specific filing that will
21 offset the access charge increases that the
22 interexchange carriers would experience.

23 Q. Can you point to me where that is in the
24 agreement?

25 MR. SHAW: Page 4, paragraph 5.

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1 CHAIRMAN NELSON: Thank you. That's all I
2 have right now.

3

4 EXAMINATION

5 BY JUDGE HAENLE:

6 Q. The questions that you were asked about
7 paragraph 9 and what you expected these offsetting
8 revenue neutral filings to be, you're saying that they
9 would likely be brought on to be evaluated in a
10 Wednesday morning meeting kind of a format rather than
11 a contested hearing?

12 A. Yes.

13 Q. In the next paragraph on the next page,
14 paragraph 10 talks about a filing to restructure local
15 transport service rates. Will these customers see a
16 reduction in total rates as a result or what does the
17 staff anticipate?

18 A. Generally speaking, the larger
19 interexchange carriers, like AT&T, would see
20 reductions under the LTR, that restructure, and
21 smaller carriers would tend to see increases.

22 Q. What does that consider PTI to be?

23 A. Well, PTI would be the local exchange
24 company providing the access. It would be for them --
25 oh, I think I understand. I'm not certain whether it

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1 would be a revenue neutral filing or not. Well, it
2 says it would either be revenue neutral or be a
3 decrease so they have committed to that, yes.

4 Q. Is the petition for declaratory order that
5 was originally filed resolved by the settlement in the
6 staff's opinion?

7 A. Yes, I believe so. The agreement calls for
8 the -- page 4, paragraph 6 -- that the sale properties
9 would be recorded on PTI's books and recognized for
10 ratemaking purposes at net book value, and that would
11 be as opposed to allowing them to book any of the
12 acquisition gain or the acquisition cost on the books.

13 JUDGE HAENLE: Thank you. That's all I
14 had.

15 CHAIRMAN NELSON: One more. Can I get a
16 map?

17 THE WITNESS: Yes.

18 CHAIRMAN NELSON: Can we all have a map of
19 the sale exchanges?

20 MR. MANIFOLD: Isn't there one in the
21 petition?

22 CHAIRMAN NELSON: Is there one in the
23 petition?

24 MR. SHAW: Yes, there is.

25 MR. MANIFOLD: I think there's one

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1 someplace in there that has the sale exchanges colored
2 differently than the others.

3 JUDGE HAENLE: Well, prefiled Exhibit 4 --

4 MR. MANIFOLD: Oh, here.

5 CHAIRMAN NELSON: This is lovely.

6 JUDGE HAENLE: Attached to the petition in
7 940700 as Exhibit A is a map, although it isn't
8 colored. What's been handed to the chairman was
9 prefiled Exhibit 4 for identification from the
10 company. I can't imagine that anyone would object to
11 the map being made part of the record. If that would
12 be all right we could -- when we mark the settlement
13 agreement we could mark that map as well.

14 MR. MANIFOLD: You don't want to
15 cross-examine it?

16 JUDGE HAENLE: Tell you what. If you feel
17 a strong need to cross-examine it, we'll talk about it
18 again.

19 JUDGE HAENLE: Other questions,
20 Commissioners.

21 CHAIRMAN NELSON: Just so I understand the
22 map now, the blue is the U S WEST exchanges that are
23 being sold to PTI?

24 MR. TRAUTMAN: The green.

25 CHAIRMAN NELSON: Blue is what PTI now

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1 owns and the green is what formerly U S WEST being
2 proposed to be sold to PTI?

3 MR. TRAUTMAN: Correct.

4 JUDGE HAENLE: Commissioners, any other
5 questions?

6 COMMISSIONER HEMSTAD: No.

7 COMMISSIONER GILLIS: No questions.

8 JUDGE HAENLE: Where does that leave us in
9 terms of process and in terms of background?.

10 CHAIRMAN NELSON: I have two pending
11 questions.

12 COMMISSIONER HEMSTAD: Other witnesses.

13 JUDGE HAENLE: You're absolutely right.

14 Thank you, Mr. Spinks. You can step down.

15 JUDGE HAENLE: Mr. Moran next perhaps.

16 Whereupon,

17 MICHAEL MORAN,

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

20

21 DIRECT EXAMINATION

22 BY MR. SHAW:

23 Q. Could you state your name and address and
24 occupation for the record, please.

25 A. I'm Mike Moran. My address is 1600 Bell

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1 Plaza, Seattle, Washington, and I'm the regional
2 regulatory director for U S WEST for the western
3 region.

4 JUDGE HAENLE: Mr. Kopta, if you reach down
5 and unhook underneath the -- it's kind of looped
6 around, we can pull the microphone over there so
7 Mr. Shaw can speak right into it and we can be sure
8 everyone can hear.

9 JUDGE HAENLE: Thank you.

10 Q. Mr. Moran, were you in the room when Mr.
11 Spinks testified recommending the Commission adopt the
12 settlement?

13 A. Yes, I was.

14 Q. And you heard the questions of the
15 commissioners that were deferred to you?

16 A. Yes, I did.

17 Q. First, Mr. Spinks testified about a benefit
18 to U S WEST of shareholders in regard to tax benefits.
19 Could you just state from U S WEST's perspective what
20 the benefit to U S WEST stockholders is from this
21 transaction as set forth in the settlement agreement
22 and address specifically in your answer the tax
23 applications.

24 A. We have a slightly different interpretation
25 of what happens to the deferred taxes. There's two

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1 scenarios. One scenario is that we don't do an
2 exchange of property. There is a possibility in these
3 sales where we can bring in a third party and do a
4 tax-free exchange, so there's two scenarios. Let me
5 describe, if we don't do a tax free exchange then the
6 deferred taxes become payable immediately on the close
7 of sale to the government because our tax basis is
8 lower than our book basis so then when it's closed out
9 that tax essentially goes to the federal government
10 not to the U S WEST stockholders.

11 In the event that we're able to work out an
12 exchange of like property with a third party, the
13 deferred taxes will attach to the new plant that we
14 exchange this plant for, and that could be in
15 Washington or it could be in some other states. What
16 they will do is set up a third party and as U S WEST
17 needs a new plant they essentially exchange it for
18 this plant that goes to PTI in kind of a complex
19 arrangement, but the bottom line is then the taxes are
20 not immediately due to the federal government but they
21 remain on the books, in the regulated books, attached
22 to that new plant.

23 Q. Are there other benefits to U S WEST
24 stockholders of disposing of these operating problems?

25 A. Well, the benefit is that U S WEST is then

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1 able to focus its operations on more precisely in the
2 -- in more of the urban areas. U S WEST does get the
3 benefit of the cash flow to invest in its operations.

4 Q. Does U S WEST remain a predominant provider
5 of rural service in Washington as well as its 14-state
6 operating territory?

7 A. Yes, it does. This sale, I believe, is
8 less than 1 percent of U S WEST's lines in Washington.

9 Q. Chairman asked you about or asked Mr.
10 Spinks about the expected schedule for approval by the
11 FCC of the transfer. Could you address what you know
12 about that, please.

13 A. We have made filings, I think about the
14 same time as we filed with this Commission. It's my
15 understanding that the FCC doesn't begin its approval
16 process in any earnest until it hears that the state
17 public utility Commission has approved the sale and
18 then at that time it moves forward towards its
19 approval.

20 Q. Do you anticipate any problems with that
21 being anything other than routine?

22 A. No, we don't. The Colorado approval took a
23 long time because the FCC was enunciating some policy
24 with respect to the universal service fund as part of
25 that approval process, so that took a fairly long

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1 time. Just recently, the Arizona has been approved
2 and so we would expect now that the FCC has enunciated
3 its new policies that the approval would be relatively
4 routine.

5 Q. Do you have anything further to state about
6 your understanding of developments in terms of the
7 universal service fund impacts of this transaction?

8 A. I will give my understanding. Mr. Smith
9 probably is closer to it than I am, but my
10 understanding of the policy in the FCC order was that
11 all future sales would be approved provided that they
12 didn't have a cumulative benefit or cumulative effect
13 on the high cost fund of more than 1 percent annually.
14 In the footnote of the order, the pending applications
15 of Washington, Oregon, and Utah, I believe, were
16 specifically excluded from that cap, but future sales
17 approvals will be subject to that policy with respect
18 to the impact on the universal service fund.

19 Q. Directing your attention to page 4,
20 paragraph 5, of the settlement agreement where it
21 recites what U S WEST is going to do in regard to the
22 IXC access charges, and it refers to an expected
23 rate case proceeding. Has U S WEST in fact filed that
24 rate case?

25 A. Yes, we have.

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1 Q. On what date?

2 A. It was filed last Friday, I believe. I'm
3 not sure what the date was. February 17, I think.

4 Q. Does that filing propose to reduce access
5 charges to the IXC's of more than a million dollars?

6 A. Yes. It proposes reductions over a
7 two-year period in the range of 14 to 15 million
8 dollars.

9 Q. And if that proposal is not approved by the
10 Commission then U S WEST is going to file at least a
11 million dollar unilateral access charge reduction?

12 A. If that proposal does not succeed in
13 producing at least a million dollars, and if there is
14 no other proposal brought forth by U S WEST prior to
15 completion of the rate case that results in a million
16 dollars decrease in access charges to the
17 interexchange carriers then U S WEST will make a
18 unilateral filing to reduce access charges by \$1
19 million and will not ask for an offset.

20 Q. Is it your understanding that that \$1
21 million is more than enough to cover the increase that
22 all interexchange carriers will experience by being
23 served by PTI instead of U S WEST?

24 A. Yes.

25 MR. SHAW: I have nothing further. Thanks.

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1 JUDGE HAENLE: Commissioners.

2

3 EXAMINATION

4 BY CHAIRMAN NELSON:

5 Q. Mr. Shaw got right at what I was interested
6 in in the FCC which is this policy they've enunciated
7 I read about in the trade press. I think I heard you
8 say, Mr. Moran, that they specifically excluded this
9 sale, the Washington state sale from this new policy?

10 A. Yes.

11 CHAIRMAN NELSON: Thank you.

12 COMMISSIONER HEMSTAD: I don't have any
13 other questions.

14 COMMISSIONER GILLIS: I don't have any
15 questions.

16 JUDGE HAENLE: Thank you, sir. You may
17 step down.

18 Whereupon,

19 ROBERT SMITH,

20 having been first duly sworn, was called as a witness
21 herein and was examined and testified as follows:

22

23 DIRECT EXAMINATION

24 BY MS. HARWOOD:

25 Q. State your name and address.

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1 A. My name is Bob Smith. My address is 805
2 Broadway, Vancouver, Washington 98668.

3 Q. Can you tell me where you're employed and
4 in what capacity?

5 A. I'm employed in the Vancouver headquarters
6 as director of external affairs.

7 Q. Were you in the room when we heard
8 testimony from Mr. Spinks earlier today and also from
9 Mr. Moran regarding the settlement that's proposed in
10 this docket?

11 A. Yes, I was.

12 Q. And the question that was directed towards
13 Mr. Spinks related to paragraph 12 of the settlement
14 which provided that PTI will invest at least \$25
15 million in capital improvements in the purchased
16 exchanges during the first five years after purchase
17 for system upgrades and integration with PTI's
18 network. Could you describe in more detail as
19 Chairman Nelson had requested exactly what types of
20 purchases PTI envisions for the system upgrades and
21 integration with PTI's network?

22 A. Okay. First of all, I guess I would like
23 to lay a little background. One of the difficulties
24 in a transaction such as this is that it's a fairly
25 fluid event and there's not a lot of time to do a lot

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1 of field studies and engineering studies, so you go
2 forward in part on your past experience with similar
3 type equipment and with similar experiences in other
4 states in upgrading the facilities such as these. So
5 that's kind of the short story, but one thing we do
6 anticipate is that there will be a higher level of
7 expenditure required than is customarily expected in
8 our own central offices and service areas, so we
9 budgeted a higher amount per access line over this
10 five year period each year in anticipation that there
11 would be additional requirement.

12 Some of the specific things that we
13 anticipate would be SS7 deployment to all of these
14 offices; CLASS service deployment to all of these
15 services, replacing a substantial amount of analog
16 carrier with digital carrier; and replacing, to the
17 extent that we find it, cable and that sort of thing
18 with newer cable facilities. But as I say, a lot of
19 information was not available to us in terms of
20 getting at specifics. One example is I believe one of
21 the customers in the Ashford exchange indicated that
22 there was some question as to the service ability of
23 the batteries in the central office. Our response to
24 that was that we had sufficient funds budgeted to
25 replace the batteries should they need replacement. I

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1 can provide you with what we do have where we've been
2 able to identify things. Another thing I didn't
3 mention is we did have access to what generics existed
4 in all the central offices and we plan to upgrade them
5 to the latest generics so that's also in the budget.

6 Q. Chairman Nelson further had questions
7 regarding the status of the FCC approval, which I
8 think Mr. Moran directed an appropriate response, as
9 well as the USF arrangements, exactly how USF will be
10 affected by this proposed sale to Pacific Telecom.

11 A. Yes. Let me elaborate a little bit on
12 that. Mr. Moran was correct in that Oregon and
13 Washington were specifically footnoted in the Colorado
14 order, and I would be happy to provide a copy of that
15 to you. I believe I did provide a copy to staff so
16 they have that. It did a number of other things, too.
17 It acknowledged for the first time that infrastructure
18 upgrading was in the public interest. I thought that
19 was noteworthy, as well as indicating a concern over
20 the ultimate effect on US transactions such as these.
21 When given the fact that PTI will draw -- at the
22 earliest possible time we could draw for this
23 transaction would be approximately 18 months from
24 closure, that anticipates in my view the existence of
25 a fund beyond the end of the cap this year. I thought

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1 it was a positive sign as well. The 1 percent
2 dilution criteria does not by order apply to existing
3 transactions. There's some question as to what
4 constitutes an existing transaction. However, as I
5 indicated, Washington and Oregon were specifically
6 footnoted. I should also point out that USTA and the
7 FDCA have appealed that new criteria. And so I don't
8 know what the ultimate outcome will be there.

9 CHAIRMAN NELSON: What's FCTA?

10 THE WITNESS: It was the FTCA. Did I get
11 that wrong?

12 CHAIRMAN NELSON: Do you know what it is?.

13 JUDGE HAENLE: What's it stand for?

14 THE WITNESS: It's a rural coalition. It
15 represents co-ops. Acronyms is oddly enough not one
16 of my strong suits.

17 CHAIRMAN NELSON: That's not the right
18 acronym but I know what you mean.

19 THE WITNESS: I should have made it
20 multiple choice.

21 CHAIRMAN NELSON: I was asking with regard
22 to the USF arrangements and how that would be
23 impacted.

24 THE WITNESS: Specifically, in terms of the
25 amounts, at the time of the petition PTI was drawing

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1 approximately just over 7 million in the state of
2 Washington. This transaction would add, with the
3 improvements, with the \$25 million, would add
4 approximately 6.3 million.

5 CHAIRMAN NELSON: So PTI would be recipient
6 from the interrupt counts then in future years of
7 approximately 13 plus million?

8 THE WITNESS: That's correct.

9 Q. Mr. Smith, there was a question regarding
10 the paragraph 9 where PTI will freeze the local rates
11 in the sale exchanges for a period of two years
12 after the purchase. Do you expect that any sort of
13 integration that will occur will occur also in the
14 Wednesday morning format? Is that your anticipation,
15 as Mr. Spinks will testified?

16 A. I agree with that. I would hope that
17 that's the way it would be processed.

18 Q. And I believe there was also a question
19 with regard to paragraph 10. PTI will file access
20 tariff revisions to restructure the local transport
21 service and again the stipulation notes that that's
22 neutral or will constitute a reduction in local
23 transport charges. Is that correct?

24 A. That's correct.

25 MS. HARWOOD: I have no further questions

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1 of the witness.

2 JUDGE HAENLE: Commissioners.

3 CHAIRMAN NELSON: Couple of follow-ups.

4

5 EXAMINATION

6 BY CHAIRMAN NELSON:

7 Q. You indicated that USTA, United States
8 Telephone Association, and the rural association
9 intended to appeal the FCC's order specifically this
10 limitation of 1 percent. Is that on the grounds, if
11 you know, that the FCC should have made this policy
12 announcement through a rulemaking rather than in the
13 context of this order?

14 A. That's the way I read it.

15 Q. I actually think maybe if Mr. Smith can,
16 that would be a good thing to have in the record is
17 just the FCC's order.

18 A. The Colorado order?

19 JUDGE HAENLE: Can that be provided by your
20 client, Ms. Harwood?

21 MS. HARWOOD: Yes, that's acceptable.

22 MR. MANIFOLD: Is that the order that's
23 attached to your rebuttal testimony RAS-3?

24 THE WITNESS: Yes, it is.

25 JUDGE HAENLE: Well done, Mr. Manifold.

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1 MR. MANIFOLD: Sort of makes you think this
2 stuff ought to all come in, doesn't it?

3 THE WITNESS: I believe strongly both ways.
4 It is very good testimony.

5 Q. Well, I'm just going to talk out loud for a
6 second. I think it would be useful if the parties
7 could agree at the time of the public hearings if they
8 know what kind of upgrades might occur in each of the
9 areas where we have a public hearing. Once again,
10 Mr. Smith has indicated that -- and I think he said
11 that all of these features will be available at some
12 future time in PTI service territory and that's that
13 SS7, CLASS, et cetera. It sounded to me as if -- and
14 perhaps I should ask, so they all do not have those
15 things at this time?

16 A. That's correct.

17 Q. Well, that may be useful to the people who
18 hear it just to know what kind of functionality,
19 features and functionalities they can expect to have.
20 And I guess I won't demand any more specifics now
21 because you obviously don't know what they are, but if
22 you know when we get closer to the hearing if there's
23 a way for public counsel to let the people know, I
24 think that would be useful.

25 JUDGE HAENLE: We were going to discuss

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1 later on who would be giving the brief overview that
2 generally is given at the public hearing just to be
3 sure someone was planning on giving it. Perhaps
4 whoever that person is, looking at you, Mr. Manifold,
5 not knowing otherwise, could even call on someone from
6 the company perhaps to give that brief information. I
7 don't know if you want to give it yourself, pass it
8 along or call on somebody from the company as part of
9 that brief overview.

10 MR. MANIFOLD: Be happy to do that. I was
11 planning on giving an overview and we're only talking
12 two weeks from today so I don't know how much more the
13 company will know by then but we will put our heads
14 together and see and I will try to get into the record
15 then whatever information they do have by that time.

16 JUDGE HAENLE: We appreciate the company's
17 cooperation in that.

18 THE WITNESS: We can definitely speak to
19 the new services and so on but in terms of upgrading
20 the existing infrastructure to the extent that it's
21 deficient, when we have ready access to the plant and
22 to the records we'll be able to better make a
23 determination.

24 I would add or like to elaborate on the one
25 condition that we will specifically look at

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1 approximately 10 to 11 exchanges that are currently in
2 the staff's view exceeding the trouble index threshold
3 that they find acceptable and work with U S WEST in
4 determining the likely source of those troubles and
5 problems and recommend a plan to solve them within the
6 first two years.

7 CHAIRMAN NELSON: That's all I have.

8 COMMISSIONER HEMSTAD: I don't have any
9 questions.

10

11 EXAMINATION

12 BY COMMISSIONER GILLIS:

13 Q. Do you expect some additional field
14 personnel to be employed in the area that's being
15 purchased?

16 A. We are adding employees. I don't have that
17 precise number in my mind but we are adding employees
18 and anticipate that we would be closer to the
19 customer. In some cases we already have people that
20 are stationed relatively close to a lot of these
21 exchanges. As you can see from the map, most of them
22 if not all of them are contiguous to our existing
23 operations. A good example, I think, would be an
24 Ashford customer again raised the concern over
25 response time in the event of trouble. They had an

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1 employee that lived in their community but was
2 dispatched out of Tacoma and would visit that
3 community once or twice a week whereas we have someone
4 next door in Morton relatively close that could be
5 dispatched more often or as needed with a quicker
6 response time. That's pretty much typical if you look
7 at that map. We are all typically close. If you like
8 we can get you the actual number of employees that we
9 plan to add in the field. We have that broken down by
10 the east and west side of the state.

11 Q. Sure. How soon after the sale would you
12 anticipate having a detailed facility improvement plan
13 in place for the region?

14 A. I would request that I would be allowed to
15 check with our person responsible for that activity
16 rather than committing them to some unreasonable
17 expectation. I'm not in the plant business for a
18 reason. But I will do that and I will have
19 Mr. Erickson provide that information.

20 JUDGE HAENLE: Perhaps that could be made
21 part of that brief overview that we were talking about
22 for the public.

23 COMMISSIONER GILLIS: Good idea.

24 JUDGE HAENLE: Would that be possible, Mr.
25 Smith?

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1 THE WITNESS: Certainly.

2 COMMISSIONER GILLIS: That's all the
3 questions I had.

4 COMMISSIONER HEMSTAD: One follow-up on
5 Commissioner Gillis's first question. Are any of
6 these employee distances going to be transfers from
7 U S WEST?

8 THE WITNESS: I'm not aware specifically of
9 a case. However, we will be I'm certain interviewing
10 U S WEST customers -- I'm sorry -- U S WEST employees
11 for the positions that we're adding. Their experience
12 and expertise will be valuable I'm sure.

13 COMMISSIONER HEMSTAD: That's all I have.

14 MS. HARWOOD: If I might could I ask the
15 witness one more question, please.

16 JUDGE HAENLE: Yes.

17

18 DIRECT EXAMINATION

19 BY MS. HARWOOD:

20 Q. To follow up on Commissioner Gillis's
21 original question of Mr. Spinks on paragraph 13 he had
22 asked about the EAS conversion for the roots from
23 Benge to Ritzville Washtunca and Lind. Currently,
24 is there an EAS route from Benge to those locations?

25 A. Well, let me answer that question this way.

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1 There is currently an EAS arrangement between
2 Ritzville Lind and Washtunca. Staff approached me
3 with the potential for or to seek out the company's
4 position with respect to a beginning petition to be
5 added to this EAS area, so the assumption on my part
6 was that Benge did not have EAS to Ritzville Washtunca
7 or Lind. So I agreed that the company would study
8 that and present it to the Commission because the
9 Commission does have a rule on that so we can't just
10 unilaterally decide to do that. So it was my
11 understanding they did not have that calling.

12 COMMISSIONER GILLIS: Would you anticipate
13 maintaining what's there now, though, as far as EAS?

14 THE WITNESS: Definitely on all cases.

15 JUDGE HAENLE: Commissioners, anything
16 else?

17

18 EXAMINATION

19 BY JUDGE HAENLE:

20 Q. I asked Mr. Spinks, and I think I should
21 probably ask you, in your opinion, were the concerns
22 expressed by the company in its petition for
23 declaratory order satisfied in the settlement
24 agreement?

25 A. The response -- staff response to that

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1 indicated that -- and I'm trying to recall precisely
2 how it was worded, but my recollection is that it
3 indicated that they were satisfied with the procedures
4 used in determining the plant and reserves to be
5 transferred and did not take issue with them. I'm
6 assuming that's the best we can do here. So if the
7 Commission wanted to improve upon that we would
8 certainly welcome that.

9 I think the commissioners had kind of
10 asked mine generally, and perhaps I should have asked
11 Mr. Moran as well, how does this particular agreement
12 or these particular benefits benefit the public as
13 opposed to any other agreements? That didn't come out
14 well at all. Why were the amounts chosen and the
15 decisions made? Why do you feel that these benefit
16 the public in particular?

17 A. As opposed to some other hypothetical
18 example?

19 Q. Well, what is it about them that makes them
20 a good deal for the public?

21 A. Well, for one thing it allows the customers
22 to enjoy a certain amount of rate stability until we
23 can gain some operating experience with the
24 properties. We would prefer that we have a chance to
25 make some of the improvements so the customers can

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1 perceive a value associated with any potential change
2 to their rates. In terms of how it affects our
3 existing customers, I think insulating them from rate
4 increases due solely to this purchase was the proper
5 thing to do. It sends the right signals to them that
6 they're not going to be disadvantaged in the near term
7 if ever. Capping the traffic-sensitive rate I think
8 was an assurance to our exchange carriers that we did
9 not have an agenda escalating access rates in
10 perpetuity, so I think that provided some rate
11 stabilization for them as well. The local transport
12 restructure without a RIC was something that was
13 important to interexchange carriers or at least in
14 particular some interexchange carriers, I should say,
15 where we're willing to go forward with that I think
16 that's the proper thing to do. We have that at
17 interstate.

18 In the event that rates are integrated and
19 there is a possibility of offsets, we agree to first
20 look taxes, charges, recognizing that other parties
21 were free to make counter proposals and of course the
22 Commission is always free to take some other course of
23 action. I'm still not sure what I'm comparing this
24 to.

25 Q. Well, just why is it? I think you pretty

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1 well answered what my question was and why is it you
2 feel it's a good deal for the customer.

3 A. I suppose the best way I can answer that is
4 it would be a good deal for the customers absent any
5 conditions, because PTI is a recognized rural provider
6 and I think we provide good service. I think that's
7 where our focus is. So I think there are other
8 benefits other than what's on the piece of paper.

9 JUDGE HAENLE: Anything else of the
10 witness, commissioners?

11 COMMISSIONER HEMSTAD: No.

12 JUDGE HAENLE: Thank you, sir, you may step
13 down. Did any of the others of you have witnesses
14 that you wanted to offer?

15 MR. MANIFOLD: No.

16 JUDGE HAENLE: Commissioners and parties, I
17 don't know, as I indicated earlier a bit prematurely,
18 I'm not quite sure where this leaves us in terms of
19 assembling a record or specifying what the record is
20 at this point. Obviously it's going to include the
21 transcripts, including the public transcript. We've
22 got your letters coming in, Mr. Manifold. We've got
23 the settlement agreement. We have a map and we have
24 an order of the FCC, so we have three written document
25 as well as the public statements.

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1 MR. MANIFOLD: And the petitions.

2 JUDGE HAENLE: Well, I guess I assumed --
3 did you want those marked as well? I guess I assumed
4 that those would just be considered part of the file
5 or pleadings.

6 MR. SHAW: Well, they're in the record.
7 They're not evidence, I guess. That's the distinction
8 but they're certainly in the record. They're
9 pleadings.

10 MR. MANIFOLD: I wonder if regarding the
11 other prefiled testimony if there were some middle
12 ground here where it could be introduced as we do the
13 public letters not for the truth of the matters
14 asserted but as illustrative of what the parties'
15 positions were at those times.

16 JUDGE HAENLE: Perhaps this is a dandy time
17 for a break. What we have to do from here on I think
18 is mostly housekeeping-type things. That would allow
19 the commissioners to go if they like and allow you to
20 discuss this without having us here listening to your
21 discussion. How about we take 15 minutes, be back at
22 10 minutes after.

23 (Recess.)

24 JUDGE HAENLE: Let's be back on the record
25 after some discussion regarding the remainder of the

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1 process and what form that will take. The
2 commissioners suggested that while we were off the
3 record you parties could discuss what if anything else
4 in addition to the document was specified during the
5 last part, what would be the record that would
6 underlie this settlement agreement. Were the parties
7 able to come to some type of agreement? I don't care
8 who answers.

9 MR. KOPTA: No, they were not.

10 JUDGE HAENLE: All right. I kind of
11 thought you might. You do run the risk in presenting
12 a settlement of the Commission finding that the
13 settlement is not acceptable because it does not have
14 enough information upon which to make a determination
15 that this particular settlement is in the public
16 interest. So what we do have, then, is four documents
17 which I marked for identification as follows: Exhibit
18 501 for identification, the settlement agreement, and
19 as I indicated, mine is an original. I substituted
20 the one page with the original of Mr. Simshaw's
21 signature on it. Exhibit 502 for identification, the
22 map, the multi color map that had been included with
23 some of the U S WEST's prefiled documents, I believe.
24 It was JCE-2. Exhibit 503 for identification, the
25 FCC's order, and I think the document number is AAD

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1 94-27. That's a 12-page document that was submitted
2 with prefiled rebuttal testimony as RAS-3. And
3 Exhibit 504 for identification, a group of public
4 letters that were brought today by Mr. Manifold.

5 Mr. Manifold, you indicated in your cover
6 letter of February 6 that what you provided today is
7 what you received to that date and that you were going
8 to bring with you.

9 (Marked exhibits 501 - 504.)

10 MR. MANIFOLD: Submit by mail if I could,
11 Your Honor. What I would propose to do, and I think
12 the parties had agreed was fine, was to establish a
13 cutoff date of March 13, which is a Monday, and that I
14 would submit as an addition to Exhibit 504 any letters
15 that I receive from members of the public -- that I
16 had received as of Monday, March 13.

17 JUDGE HAENLE: All right, that's fine with
18 me. If anyone disagrees with that process or if we
19 have stated it wrong, please speak up.

20 All right. We'll do it in that manner, and
21 the documents that come in shortly after March 13 will
22 be the documents that Mr. Manifold has received with a
23 cutoff date of March 13 and we'll make those an
24 additional part of 504. With that understanding,
25 then, is it all right with you, everyone, that Exhibit

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1 501 through 504 be entered into the record with 504
2 being offered for illustrative purposes? All right
3 with everyone? Anyone it's not all right with?

4 I will enter 501 through 504 then with the
5 understanding that 504 will be supplemented, as we
6 have indicated.

7 (Admitted Exhibits 501 - 504.)

8 JUDGE HAENLE: The public hearings have
9 been set out for March 6, 7 and 9. The notice of
10 hearing has gone out on those. We discussed earlier
11 this afternoon that you would be giving that overview,
12 Mr. Manifold, and the chairman did request there be
13 some specific information about the upgrades that PTI
14 proposes as well as the timeline upon which PTI
15 proposes to make those upgrades be made also a part
16 of that overview, I assume, by someone from your
17 client. That 'sall right Ms. Harwood?

18 MS. HARWOOD: Yes, that's satisfactory.

19 JUDGE HAENLE: I indicated to you also that
20 I was going to call -- if counsel has no objection I
21 will call rather than writing to counsel for the
22 two entities that aren't here, and ask them to provide
23 three pieces of information, one of them that they
24 don't object, that they do not oppose the settlement
25 agreement; second, that it's all right with them that

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1 there be no initial order here if anyone were claiming
2 that one would be necessary; and third, that they
3 would waive the right to cross-examination. We
4 discussed briefly that this is not intending to add
5 any function that people wouldn't have had to begin
6 with. I just wanted to be sure that there were no
7 loose ends to be sure that no one would come back
8 after the settlement agreement was being considered by
9 the commissioners to claim that there should have been
10 some cross-examination or there should have been an
11 initial order or something like that.

12 I will ask those of us here to -- we
13 haven't asked so far yet. I'm assuming that since
14 you provided the settlement agreement that you are
15 agreeing first of all that the settlement agreement be
16 presented directly to the commissioners so there would
17 be no need for an initial order. Second that you
18 would not be requesting cross-examination, and third
19 -- you have provided the settlement so there's no
20 third piece for you there. Trying to be very thorough
21 so there's no chance for a protest from the back end
22 at all. All right with you?

23 MR. SHAW: No right to challenge the order
24 or no right to cross-examine.

25 JUDGE HAENLE: I meant until the

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1 commissioners have said yes or no to the settlement
2 agreement. If for some reason they say no to the
3 settlement agreement then we would be back in the
4 position of needing hearings and if it were before me
5 with an initial order with cross-examination. This is
6 only for the commissioners to evaluate and give their
7 yes or no on the settlement agreement. Thank you for
8 that clarification, Mr. Shaw.

9 All right with you?

10 MS. HARWOOD: Fine with PTI.

11 JUDGE HAENLE: Mr. Kopta?

12 MR. KOPTA: Yes. One caveat, AT&T is not a
13 signatory to the settlement agreement but based on
14 that settlement agreement AT&T agrees not to oppose or
15 seek additional commission on the sale and that
16 pending the Commission's adoption of the settlement
17 agreement agrees to waive cross-examination or initial
18 order if either of those would be required.

19 JUDGE HAENLE: Mr. Manifold?

20 MR. MANIFOLD: Yes.

21 JUDGE HAENLE: Mr. Trautman?

22 MR. TRAUTMAN: Yes.

23 JUDGE HAENLE: We've lost Mr. Finnigan
24 somewhere in the process.

25 MR. KOPTA: I think he left.

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1 JUDGE HAENLE: I think I will ask him to
2 submit -- just take a one liner on that to be sure
3 that there is no one that hasn't had a chance to give
4 their opposition if there is any.

5 MR. SHAW: Mr. Finnigan is a signatory to
6 the settlement agreement if you weren't aware of that.

7 JUDGE HAENLE: I was aware. I was
8 concerned if there were an initial order required
9 or if there were cross-examination, as long as he's a
10 signatory we shouldn't have any trouble at all then
11 getting that information.

12 We discussed also during the last part
13 of the hearing that the commissioners may have
14 questions after the public portion of the hearing if
15 there are issues that are raised by the public that
16 they would like a response from a company or party
17 witness on. You will also have provided in the
18 settlement agreement that there may be a need for an
19 additional step by something from one of you. The
20 commissioners suggested that we just wait until after
21 the public hearings are over with and then discuss
22 that again perhaps as the last order of business at
23 the end of the last public hearing and make a
24 determination at that time. If one is necessary we
25 can set it up.

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1 I think that covers all of the elements
2 that we discussed off the record. Is there anything
3 else that's a loose end or anything else that we
4 haven't covered that we need to cover?

5 MS. HARWOOD: For the record, my witness,
6 Mr. Smith testified regarding an acronym. That
7 acronym is RTCA which stands for Rural Telephone
8 Cooperative Association.

9 JUDGE HAENLE: Thank you. I will pass that
10 information on to the chairman to be sure she has the
11 correct acronym. Thank you for looking it up.
12 Anything else we haven't covered?

13 We'll recess until the first public hearing
14 which is 6:00 in the evening March 6. Good afternoon.

15 (Hearing adjourned at 3:40 p.m.)

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