

1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION

3	AT&T COMMUNICATIONS OF THE)	
	PACIFIC NORTHWEST, INC.,)	Docket No. UT-020406
4)	
	Complainant,)	Volume X
5)	Pages 409 to 652
	vs.)	
6)	
	VERIZON NORTHWEST, INC.,)	
7)	
	Respondent.)	
8	_____)	

9

10 A hearing in the above matter was held on May

11 7, 2003, from 9:35 a.m to 5:20 p.m., at 1300 South

12 Evergreen Park Drive Southwest, Room 206, Olympia,

13 Washington, before Administrative Law Judge MARJORIE R.

14 SCHAER and Chairwoman MARILYN SHOWALTER and Commissioner

15 RICHARD HEMSTAD and Commissioner PATRICK J. OSHIE.

16 The parties were present as follows:

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25 Joan E. Kinn, CCR, RPR
Court Reporter

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0423

1 PRE-MARKED EXHIBITS

2

3 LEE L. SELWYN (AT&T)

4 T-1 Direct Testimony with Attachment 1-3 and

5 Appendix 1 (w/o confidential)

6 T-2C Pages of T-1 & Attach. 3 including

7 confidential material

8 T-3 Selwyn rebuttal (LLS-6T)(w/o confidential)

9 Note: Portions of Testimony regarding rate
10 rebalancing Stricken per 5th Supp. Order. 67.

11 p. 4, line 16 through p. 5, line 4

12 p. 45 through p. 57

13 p. 59, lines 1-6.

14 T-3-R Selwyn rebuttal (LLS-6T-R)(w/o confidential)

15 Filed 5/2/03

16 Note: Portions of Testimony regarding rate
17 rebalancing Stricken per 5th Supp. Order. 67.

18 p. 4, line 16 through p. 5, line 4

19 p. 45 through p. 57

20 p. 59, lines 1-6

21 T-4C Rebuttal Testimony (LLS-6TC)

22 Note: Portions of Testimony regarding rate
23 rebalancing Stricken per 5th Supp. Order. 67.

24 p. 4, line 16 through p. 5, line 4

25 p. 45 through p. 57

0424

1 p. 59, lines 1-6.

2 T-4C-R Rebuttal Testimony (LLS-6TC-R) Filed 5/2/03

3 Note: Portions of Testimony regarding rate

4 rebalancing Stricken per 5th Supp. Order. 67.

5 p. 4, line 16 through p. 5, line 4

6 p. 45 through p. 57

7 p. 59, lines 1-6

8 5C Switched Access Revenue Reductions 2001 Demand

9 (LLS--7) (confidential)

10 6C Switched Access Revenue Reductions October

11 2001 - September 2002 Demand (LLS-8)

12 (confidential)

13 7C Restatement of Verizon-Northwest's Washington

14 Earnings Analysis (LLS-9)

15 8 Executive Summary of the Joint Audit Report on

16 the Basic Property Records of GTE

17 Corporations' Telephone Operating Companies

18 December 1997 (LLS-10)

19 9 Impact of ETI Adjustments on

20 Verizon-Northwest's Washington Earning

21 Analysis (LLS-11)

22 10 Restatement of Verizon-Northwest's Washington

23 Earnings Analysis Reflecting ETI Adjustments

24 and \$44-Million Reduction to Switched Access

25 Revenues (LLS-12)

0425

1	11	AT&T Response to Verizon Data Request No. 1
2	12	DR & Response #2
3	13	DR & Response #3
4	14	DR & Response #4
5	15	DR & Response #5
6	16	DR & Response #6
7	17	DR & Response #7
8	18	DR & Response #8
9	19	DR & Response #9
10	20	DR & Response #10
11	21	DR & Response #11
12	22	DR & Response #12
13	23	DR & Response #13
14	24	DR & Response #14
15	25	DR & Response #15
16	26C	DR & Response #15
17	27	DR & Response #16
18	28	DR & Response #17
19	29	DR & Response #18
20	30	DR & Response #19
21	31	DR & Response #20
22	32	DR & Response #21
23	33	DR & Response #22
24	34	DR & Response #23
25	35	DR & Response #24

0426

1	36	DR & Response #25
2	37	DR & Response #26
3	38	DR & Response #27
4	39	DR & Response #28
5	40	DR & Response #29
6	41	DR & Response #30
7	42	DR & Response #31
8	43	DR & Response #32
9	44	DR & Response #33
10	45	DR & Response #34
11	46	DR & Response #35
12	47	DR & Response #36
13	48	DR & Response #37
14	49	DR & Response #38
15	50	DR & Response #39
16	51	DR & Response #40
17	52	DR & Response #41
18	53	DR & Response #42
19	54	DR & Response #43
20	55	DR & Response #44
21	56	DR & Response #45
22	57	DR & Response #46
23	58	DR & Response #47
24	59	DR & Response #48
25	60	DR & Response #49

0427

1	61	DR & Response #50
2	62	DR & Response #51
3	63	DR & Response #52
4	64	DR & Response #53
5	65	DR & Response #54
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23	83	DR & Response #72
24	84	DR & Response #73
25	85	DR & Response #74

0428

1 86 DR & Response #75
2 87 DR & Response #76
3 88 DR & Response #77
4 89 DR & Response #78
5 90 DR & Response #79
6 91 DR & Response #80
7 92 DR & Response #81
8 93 Public Utility Commission of Texas -
9 Memorandum - Project 19133 - Evaluation of the
10 FCC Joint Audit of GTE. (Additional Cross
11 Exhibit)
12 TIMOTHY W. ZAWISLAK (Staff)
13 T-100 Direct Testimony (TWZ-T-1)
14 Note: Portions of Testimony Stricken per the
15 Commission's 5th Supp. Order, as follows:
16 p. 10, lines 7-11
17 T-101C Direct Testimony (TWZ-T-1) (confidential)
18 Note: Portions of Testimony Stricken per the
19 Commission's 5th Supp. Order, as follows:
20 p. 10, lines 7-11 (Revised page 10 filed
21 4/28/03)
22 102C (TWZ - 2C) (confidential)
23 103 USAC's 2nd Quarter 2002 Annual Interstate
24 Access Support Projection (TWZ-3)
25 104C (TWZ-4C) (confidential)

0429

1	T-105	Rebuttal Testimony (TWZ-RT)
2	T-106C	Rebuttal Testimony (TWZ-RT) (confidential)
3	107C	Staff Response to AT&T Data Request No. 4
4		(TWZ-6C) (confidential)
5	108C	Verizon Response to Staff DR No. 7 (portion)
6		(TWZ-7C) (confidential)
7	109C	Verizon Response to Staff DR No. 7 (portion)
8		(TWZ-8C) (confidential)
9	110C	Verizon Response to Staff DR No. 29 (portion)
10		(TWZ-9C) (confidential)
11	111C	Verizon Response to Staff DR No. 26 (portion)
12		(TWZ-10C) (confidential)
13	112C	Verizon Response to Staff DR No. 35 (portion)
14		(TWZ-11C) (confidential)
15	113C	Staff Imputation Sensitivity Analysis
16		(TWZ-12C) (confidential) and Electronic
17		Version (computer disk) of Staff Imputation
18		Sensitivity Analysis (TWZ-12C)
19		(Disk) (confidential)
20	114	Verizon Response of Staff DR No. 39 (TWZ-13)
21	115	Verizon Response to Staff DR No. 42 (TWZ-14)
22	116	DR 12
23	117	DR 13
24	118	DR 14
25	119	DR 15

0430

1 120 DR 16
2 121 DR 17
3 122 DR 18
4 123C DR 18
5 124 DR 21

6 GLENN BLACKMON (STAFF)

7 T-130 Direct Testimony (GB-T-1)

8 Note: Portions of Testimony Stricken per
9 Commission's 5th Supp. Order, as follows:
10 p. 8, lines 19-23

11 p. 9, lines 1-9

12 Revised pages 8 and 9 filed 4/28/03

13 131 Commission Order Adopting Rules Permanently in
14 Docket No. UT-970325 (GB-2)

15 T-132 Rebuttal Testimony (TB-RT)

16 133 DR 1

17 134 DR 2

18 135 DR 3

19 136 DR 4

20 137 DR 5

21 138 DR 6

22 139 DR 7 Note: Staff indicated at the 5/1/03 PHC
23 that they would object to the admission of
24 these exhibits since they refer to stricken
25 testimony - parties discussing this issue.

0431

1 140 DR 8 Note: Staff indicated at the 5/1/03 PHC
2 that they would object to the admission of
3 these exhibits since they refer to stricken
4 testimony - parties discussing this issue.

5 141 DR 9

6 142 DR 10 (3 pg. Exhibit) Note: Staff indicated
7 at the 5/1/03 PHC that they would object to
8 the admission of these exhibits since they
9 refer to stricken testimony - parties
10 discussing this issue.

11 143 DR 11 Note: Staff indicated at the 5/1/03 PHC
12 that they would object to the admission of
13 these exhibits since they refer to stricken
14 testimony - parties discussing this issue.

15 144 DR 20

16 BETTY A. ERDAHL (STAFF)

17 T-150 Rebuttal Testimony (BAE-RT) Revised page 12
18 received 5/1/03.

19 151C Two Confidential Sheets: 1) Verizon Separated
20 Results Summary (BAE 1-C) & 2) Analysis of
21 Directory Assistance Rate Increase
22 (BAE-5-C)

23 152C Attachment 57A (BAE 2-C) (multipage)

24 153C Staff DR No. 65 (BAE 3-C)

25 154C Staff DR No. 64 (BAE 4-C)

0432

1	155	DR 19 (non-confidential)
2	156C	DR 19 (confidential)
3	157	DR 22
4	158	DR 23
5	159	DR 24
6	160	DR 25
7	161	DR 26
8	162	DR 27
9	163	DR 28 (non-confidential)
10	164C	DR 28 (confidential)
11	165	ARMIS Document
12	166	DR 52 Staff Requests & Responses
13	167	DR 53 Staff Requests & Responses
14	168	Verizon Northwest Inc. Quarterly Financials
15		(Additional Cross Exhibit)
16	169	Verizon Northwest Inc. Results of Operations -
17		Summary (Additional Cross Exhibit)
18	170	Verizon Northwest Inc. Revenue Requirement
19		(Additional Cross Exhibit)
20		ORVILLE D. FULP (VERIZON)
21	T-200-R	Direct Testimony (ODF-1T-R)
22		Revised 4/28/03
23		Note: Certain Portions of Testimony Stricken
24		or Withdrawn - as follows:
25		Stricken:

0433

1 P. 2, lines 13-15
2 p. 3, lines 4-12, 20-22
3 p. 4, lines 9-11
4 p. 7, lines 1-9, 19-22
5 p. 8, lines 1, 4-5
6 p. 10, lines 6-15
7 p. 16, lines 21-23
8 p. 17, lines 1-2
9 p. 20, lines 14-20
10 p. 21, lines 1-5, 7-26
11 p. 22, lines 5-15
12 Withdrawn:
13 p. 17, line 4 through p. 20, line 12
14 201C Washington Intrastate Switched Access Rate
15 Design (ODF-2C)
16 Note: Stricken per Commission's 5th Supp.
17 Order granting PC's motion to strike.
18 T-202C Surrebuttal Testimony (ODF-3T)
19 Note: Stricken per Commission's 7th Supp.
20 Order, 46.
21 203 Response to AT&T 14
22 204C Response to AT&T 17
23 205 DR 18
24 206 DR 19
25 207C DR 20

0434

1	208	DR 22
2	209	DR 52
3	210C	DR 59
4	211	DR 63 (non-confidential)
5	212C	DR 63 a & b (confidential)
6	213	DR 66
7	214	DR 68 (non-confidential)
8	215C	DR 68 (confidential)
9	216	Staff # 18
10	217	Verizon Response to AT&T DR 34 (Provided at
11		PHC 5/1/03.)
12	218	Verizon Response to AT&T DR 70 (Provided at
13		PHC 5/1/03.)
14	218a-C	Verizon Response to AT&T Data Request No. 70
15	219	Verizon Response to AT&T DR 71
16	400	Verizon Advice No. 3076 (To be provided at PHC
17		5/1/03.)
18	401	Verizon Long Distance Price List filing in
19		Docket No. UT-030532 (To be provided at PHC
20		5/1/03.)
21	402	Verizon Long Distance Price List Filing in
22		Docket No. UT-030535.
23		DAVID G. TUCEK (VERIZON)
24	T-220	Direct Testimony (DGT 1T) (limit to cost basis
25		for access charges)

0435

1 Note: Stricken by Commission's 5th Supp.
2 Order, but re-offered at PHC 5/1/03 (See
3 Commission's 7th Supp. Order 37-40.)
4 221 Main Components of ICM's Modeled Network
5 (DGT-2)
6 Note: Stricken by Commission's 5th Supp.
7 Order, but re-offered at PHC 5/1/03 (See
8 Commission's 7th Supp. Order 37-40.)
9 222 ICM's Modeling Process (DGT-3)
10 Note: Stricken by Commission's 5th Supp.
11 Order, but re-offered at PHC 5/1/03 (See
12 Commission's 7th Supp. Order 37-40.)
13 223C DGT-4-C
14 Note: Stricken by Commission's 5th Supp.
15 Order, but re-offered at PHC 5/1/03 (See
16 Commission's 7th Supp. Order 37-40.)
17 T-224 Surrebuttal Testimony (DGT-5T)
18 Note: Stricken by Commission's 7th Supp. Order
19 Order 54-56.
20 T-225C Surrebuttal Testimony (confidential) (2/25/03
21 None Provided)
22 Note: Stricken by Commission's 7th Supp.
23 Order.
24 Order 54-56.
25 226C WUTC #45 (#46 withdrawn & replaced with #45)

0436

1 Staff Cross Exhibit of Tucek
2 TERRY R. DYE (VERIZON)
3 T-230 Direct Testimony (TRD-1T)
4 Note: Portions of Testimony Stricken
5 (See Exhibit T-230-R.)
6 T-230-R Direct Testimony (TRD-1T-R)
7 Revised 4/28/03
8 Note: Portions of Testimony Stricken as
9 follows:
10 p. 3, lines 7-10
11 p. 8, lines 18-22
12 p. 9-10.
13 231C TRD 2-C
14 232C TRD 3-C
15 T-233 Surrebuttal Testimony (TRD-4T)
16 Non-Conf. -- Revised 4/28/03
17 Note: Portions of Testimony Stricken as
18 follows: (See Commission's 7th Supp. Order,
19 50.)
20 p. 1, line 1 through p. 11, line 7
21 p. 12, line 13 through p. 17, line 19.
22 T-234C Surrebuttal Testimony (TRD-4TC) (confidential)
23 Note: Portions of Testimony Stricken
24 (See Exhibit T-234C-R.)
25 T-234C-R Surrebuttal Testimony (TRD-4TC-R)

0437

1 (confidential) Note: Portions of Testimony
2 Stricken (See Commission's 7th Supp. Order,
3 50.)
4 Revised 4/28/03
5 235C Summary of Imputation Calculations (TRD-5C) &
6 (TRD-6C) Note: At PHC 5/1/03, Staff indicated
7 that this exhibit should be stricken since it
8 refers to stricken testimony - parties are
9 checking this.
10 236C DR 36
11 237 DR 37 (non confidential)
12 238C DR 37 (confidential)
13 NANCY HEURING (VERIZON)
14 T-242 Direct Testimony (NWH - 1T)
15 Note: Portions of Testimony, Withdrawn,
16 Revised or Corrected. (See Exhibit T-242-R.)
17 T-242-R Direct Testimony (NWH - 1T-R)
18 Revised 4/28/03
19 Note: Certain Portions of Testimony Withdrawn
20 or Corrected, as follows:
21 Withdrawn:
22 p. 3, line 2
23 p. 10, lines 19-20
24 p. 11, lines 3-4
25 p. 14, lines 8-9

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1 Corrected: (Testimony is underlined)
2 p. 11, line 2
3 p. 14, line 8
4 243 Results of Operations - 12 Months Ended
5 December 2000 (NWH-2)
6 244 Revenue Requirement (NWH-3)
7 245 Results of Operations - Year to Year
8 Comparison (NWH-4)
9 T-246 Surrebuttal Testimony (NWH-5T)
10 Note: Testimony Stricken (See Commission's
11 7th Supp. Order, 46.)
12 248 Non-confidential exhibits (NWH-6 through
13 NWH-9)
14 Note: Exhibit Stricken & Related Surrebuttal
15 Testimony Exhibit T-246 (NWH-5T)
16 DENNIS B. TRIMBLE (VERIZON)
17 T-252 Surrebuttal Testimony (DBT-1T)
18 Note: Testimony Stricken (See Commission's
19 7th Supp. Order, 50.)
20 DUANE K. SIMMONS (VERIZON)
21 T-255 Surrebuttal Testimony (DKS-1T)
22 Note: Testimony Stricken (See Commission's
23 7th Supp. Order, 50.)
24 CARL R. DANNER (Verizon)
25 T-260 Direct Testimony (CRD-1T) Portions of

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1 Testimony Stricken. (See Exhibit T-260-R.)
2 T-260-R Direct Testimony (CRD-1T-R)
3 Revised 4/28/03
4 Note: Certain Portions of Testimony Stricken,
5 as follows:
6 p. 2-5
7 p. 11-18
8 p. 19, lines 1-2
9 261 Resume (CRD-2)
10 T-262 Surrebuttal Testimony (CRD-3T)
11 Note: Portions of Testimony Stricken
12 (See Exhibit T-262-R.)
13 T-262-R Surrebuttal Testimony (CRD-3T-R)
14 Revised 4/28/03
15 Note: Certain Portions of Testimony Stricken,
16 as follows: (See Commission's 7th Supp. Order,
17 50.)
18 p. 1, line 1 through p. 10, line 17
19 p. 11, line 19 through p. 23, line 20
20 p. 27, line 1 through p. 39, line 23.
21 263C Confidential Exhibits (2/25/03 None Provided)
22 264 Non-confidential Exhibits (2/25/03 None
23 Provided)
24 265 Credit Suisse First Boston Equity Research
25 Report,

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1 AT&T Consumer: A Base Case Ahead of the
2 Triennial Review (February 5, 2003)
3 266 Friedman Billings Ramsey Technology Industry
4 Update, Bells - More Negatives Than Positives
5 (January 14, 2003)

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8 300 Stipulation/Settlement Agreement between
9 certain parties of record.
10 On April 4, 2003 Settlement no longer viable.
11 (See Commission's 8th Supp. Order, 15.)

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

2 JUDGE SCHAER: This morning is May 7th, 2003,
3 and it's 9:30 in the morning. We are beginning
4 evidentiary hearings in Docket Number UT-020406, which
5 is a complaint by AT&T challenging Verizon's access
6 charges.

7 Let me introduce first the Chairwoman and
8 Commissioners for the Commission. Chairwoman Marilyn
9 Showalter is to my right, then Commissioner Dick
10 Hemstad, then Commissioner Pat Oshie. I am Marjorie
11 Schaer, and I am the Administrative Law Judge assigned
12 to this proceeding.

13 I would like now to take appearances, and I
14 would like counsel to introduce themselves to the
15 Commissioners. Since all counsel have appeared before
16 in this proceeding, you can make the short appearance
17 and tell us your name and whom you represent.

18 And I will start with you, Mr. Kopta, because
19 you are the complainant this morning.

20 MR. KOPTA: Thank you, Your Honor. Gregory
21 J. Kopta of the law firm Davis, Wright, Tremaine on
22 behalf of AT&T Communications of the Pacific Northwest,
23 Inc.

24 JUDGE SCHAER: All right.

25 And then go ahead, Ms. Singer Nelson.

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1 MS. SINGER NELSON: Good morning, Michel
2 Singer Nelson here on behalf of MCI WorldCom.

3 JUDGE SCHAER: And then counsel for Verizon,
4 please.

5 MS. ENDEJAN: Good morning Commissioners and
6 Chairwoman Showalter. My name is Judy Endejan. I'm
7 here representing Verizon Northwest, Inc.

8 MR. CARRATHERS: Good morning, my name is
9 Charles Carrathers, general counsel at Verizon
10 Northwest. Thank you.

11 JUDGE SCHAER: And for Commission Staff.

12 MS. SMITH: Shannon Smith with the Attorney
13 General's office representing Commission Staff.

14 JUDGE SCHAER: Then for Public Counsel,
15 please.

16 MR. CROMWELL: Robert Cromwell on behalf of
17 Public Counsel.

18 JUDGE SCHAER: And is there anyone else
19 appearing on the bridge line this morning who wishes to
20 appear at this time?

21 Hearing no response, we will proceed. I
22 believe that we have had pre-hearing conferences that
23 have allowed us to get organized and identify exhibits
24 and are ready to proceed with taking evidence and
25 cross-examination of evidence. Is there anything the

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1 parties wish to bring up at this point before we get
2 started on that job?

3 MR. KOPTA: Not at this time, Your Honor.

4 JUDGE SCHAER: And I will indicate that there
5 are some housekeeping matters that have been brought to
6 my attention this morning and that there has been some
7 discussion of an informal pre-hearing conference, or a
8 formal pre-hearing conference, but a pre-hearing
9 conference to take place Friday morning outside the
10 presence of the commissioners to try to tie up those
11 loose ends so that we may continue to proceed smoothly.

12 So at this time I would ask you to call your
13 first witness, Mr. Kopta.

14 MR. KOPTA: Thank you, Your Honor.

15 AT&T calls Dr. Lee L. Selwyn.

16 JUDGE SCHAER: Dr. Selwyn, let me remind you
17 that you have previously been sworn under oath in this
18 proceeding.

19 THE WITNESS: Yes Your Honor.

20 JUDGE SCHAER: Okay, go ahead please,
21 Mr. Kopta.

22

23 Whereupon,

24 LEE L. SELWYN,

25 having been previously duly sworn, was called as a

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1 witness herein and was examined and testified as
2 follows:

3

4 D I R E C T E X A M I N A T I O N

5 BY MR. KOPTA:

6 Q. Dr. Selwyn, would you please state your name
7 and business address for the record, please.

8 A. Yes, my name is Lee L. Selwyn. My business
9 address is Two Center Plaza, Suite 400, Boston,
10 Massachusetts 02108.

11 Q. And do you have before you the exhibits that
12 have been marked for identification as Exhibit Number
13 T-1, which is the direct testimony of Lee L. Selwyn with
14 attachments 1 through 3 and Appendix 1; Exhibit T-2C,
15 which are the confidential material that is associated
16 with Exhibit T-1; Exhibit T-3-R, which is the revised
17 rebuttal testimony of Dr. Lee L. Selwyn; Exhibit T-4C-R,
18 which is the revised rebuttal testimony including
19 confidential portions; and Exhibits 5C, 6C, 7C, and 8,
20 which are attachments to the rebuttal testimony?

21 A. In fact, I don't have the marked copies in
22 front of me. I have what I believe are those materials,
23 however.

24 Q. And were those exhibits prepared by you or
25 under your direction and control?

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1 A. Yes, they were.

2 Q. Do you have any corrections to make to any of
3 those exhibits at this time?

4 A. I have one correction to the rebuttal
5 testimony, which is exhibit -- which one was that?

6 Q. It would be Exhibit T-3 as well as T-3-R as
7 well as T-4C-R.

8 A. At page 3 of that testimony on the first
9 line, the words, 11 of 14 legacy Bell Atlantic states
10 should be -- the words 11 of should be replaced by all,
11 A-L-L. So the sentence would now read, a portion of the
12 sentence, the long distance business in all 14 legacy
13 Bell Atlantic states. And that is simply an update to
14 conditions that have changed since the date of filing.

15 Q. And with that correction, are the exhibits
16 true and correct to the best of your knowledge?

17 A. Yes, they are.

18 MR. KOPTA: Your Honor, at this time I would
19 move for admission of Exhibits T-1, T-2C, T-3-R, T-4C-R,
20 5C, 6C, 7C, and 8.

21 JUDGE SCHAER: Are there any objections?

22 Those documents are admitted.

23 Go ahead, please.

24 MR. KOPTA: Thank you, Your Honor.

25 Dr. Selwyn is available for cross-examination.

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1 JUDGE SCHAER: And did you have any questions
2 from Verizon?

3 MR. CARRATHERS: Thank you, Your Honor, just
4 a few.

5 JUDGE SCHAER: Mr. Carrathers, you're going
6 to be doing the questioning of this witness for Verizon;
7 is that correct?

8 MR. CARRATHERS: Yes, Your Honor.

9 JUDGE SCHAER: Thank you, go ahead.

10 MR. CARRATHERS: Thank you.

11

12 C R O S S - E X A M I N A T I O N

13 BY MR. CARRATHERS:

14 Q. Good morning, Dr. Selwyn.

15 A. Good morning, Mr. Carrathers.

16 Q. Again, I'm Charles Carrathers for the record.
17 I have some questions for you, and I would like to begin
18 with your direct testimony, Exhibit T-1, if you could
19 please turn to page 5 of that testimony.

20 A. I have it.

21 Q. And if you could please refer to line number
22 21, and there you state, Dr. Selwyn, that the Commission
23 could eliminate the price squeeze that you claim exists
24 by requiring Verizon to raise the retail price of its
25 toll services, correct?

0447

1 A. Yes.

2 Q. Now if you could turn to your rebuttal
3 testimony, Exhibit T-3-R.

4 A. Just for the record, Mr. Carrathers, you read
5 a portion of the sentence at page 5 of Exhibit T-1,
6 which is not in any sense an accurate characterization
7 of the entire thought being conveyed in the sentence. I
8 just want to point that out.

9 Q. Thank you, Dr. Selwyn. And again as I read
10 your testimony, you said the Commission can alleviate
11 the price squeeze by requiring Verizon to increase its
12 toll rates, although you go on to state that you would
13 prefer that the Commission lower access charges.

14 A. That's correct.

15 Q. Thank you. Now again, if you could turn to
16 your rebuttal testimony, again Exhibit T-3-R.

17 A. Okay.

18 Q. And please turn to page 26.

19 A. I have it.

20 Q. On line 12 you explain that you believe the
21 price floor for Verizon is a little more than 14 cents
22 per minute of use, correct?

23 A. Yes.

24 Q. And you conclude that when you compare that
25 price floor to the average rate per minute that Verizon

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1 witness Dye calculates that all of Verizon's plans fail
2 imputation, correct?

3 A. Yes.

4 Q. Now at the very end of that page, Dr. Selwyn,
5 you state that in order for the price squeeze, and I'm
6 referring to the very last word in line 19 carrying over
7 to 20:

8 In order for the price squeeze to be
9 eliminated, access rates must be reduced
10 so that the price floor is lower than
11 the total price per minute appearing in
12 Mr. Dye's testimony.

13 Correct?

14 A. Yes.

15 Q. Now let me clarify, Dr. Selwyn, we went
16 through your direct testimony on page 5 where you said
17 the price squeeze could be eliminated by raising toll
18 rates, so here in your rebuttal testimony the price
19 squeeze could be eliminated not by reducing access
20 charges as you state, but could be reduced by simply
21 raising the retail toll rates to whatever the price
22 floor is, correct?

23 A. Well, as I pointed out, the statement on page
24 5 of my direct testimony says that the price squeeze
25 could be eliminated by increasing toll rates, but the

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1 preferable approach and the approach that I am
2 recommending is that access charges be reduced. And
3 what -- the conclusion of this section of the rebuttal
4 is simply reiterating that point. I am -- nowhere in my
5 testimony am I recommending, proposing, suggesting that
6 the Commission resolve the issues raised by AT&T in its
7 complaint by directing Verizon to increase toll rates.
8 In fact, it's not even obvious to me given that toll
9 service is classified as competitive and its price
10 listed, it's not even clear to me what mechanism exists
11 for the Commission to even do that. I was simply
12 stating in my direct testimony that, you know, you can
13 either raise the bridge or lower the river, and my
14 ultimate recommendation is to lower the river.

15 Q. Thank you, Dr. Selwyn. Let's assume that all
16 of Verizon's retail toll rates pass imputation, whatever
17 the imputation floor is. You're not claiming that
18 Verizon's access charges then standing alone are
19 unlawful or unjust or unreasonable, are you?

20 A. I think they are. I think in the larger
21 context of the telecommunications industry and the
22 particular long distance market as it exists today,
23 setting access charges substantially in excess of
24 forward looking incremental costs produces an unjust and
25 unreasonable result and consequently and particularly

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1 when the monopoly provider of access services is itself
2 competing with downstream providers of long distance
3 service in the retail long distance market. So yes, as
4 an absolute matter it is my opinion that access charges
5 at the present levels in Verizon Northwest in Washington
6 are excessive and unreasonable.

7 Q. So under your testimony, even if no price
8 squeeze exists because the toll rates pass imputation,
9 you still disagree with Verizon's levels of access
10 charges, correct?

11 A. Yes.

12 Q. Dr. Selwyn, are you familiar with the
13 Commission's access charge rule, which is 480-120-540?

14 A. Generally.

15 MR. CARRATHERS: Your Honor, for the
16 convenience of everyone, the rule itself is an
17 attachment to Dr. Blackmon's direct testimony. It's
18 Exhibit 131, the last 2 pages, so everyone should be
19 able to reference that.

20 But, Dr. Selwyn, I've got an extra copy for
21 you if that's easier.

22 BY MR. CARRATHERS:

23 Q. Now, Dr. Selwyn, you said you were familiar
24 generally with the Commission's access charge rule.
25 You recognize that the rule establishes a separate

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1 interim terminating access charge adder, commonly known
2 as the ITAC, which is intended to reflect a carrier's
3 universal service support costs as determined by the
4 Commission, correct?

5 A. Yes.

6 Q. Is it your testimony, Dr. Selwyn, that that
7 ITAC, again which recovers universal service cost, is
8 itself unlawful or discriminatory or unreasonable?

9 A. And I guess my answer to that question is
10 that in the present contest of the market as it exists
11 today, I would have to answer yes to that. Because it
12 is, as I explained in my testimony, access charges
13 themselves are applied in a non -- in an inconsistent
14 manner. For example, as between wireline carriers and
15 wireless carriers, they are being treated as largely
16 transparent with respect to intracompany transactions
17 between Verizon Northwest and Verizon Long Distance.
18 And in the context of the market as it exists today,
19 this particular method of imposing a universal service
20 obligation on an essential service that is also being
21 used by Verizon as a -- or that has the effect of
22 disadvantaging Verizon's downstream competitors in the
23 retail long distance market requires reexamination at
24 this time.

25 Q. Thank you, Dr. Selwyn. So as I understand

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1 your argument, the ITAC that the Commission established
2 in its access charge rule and that Verizon charges and
3 other carriers charge in Washington state is
4 inappropriate? It's not just Verizon's ITAC, in other
5 words, it's any carrier that charges an ITAC, they too
6 must have an unlawful or anticompetitive rate, correct?

7 A. Well, the point is the ITAC is not being
8 charged in a consistent manner. Wireless carriers do
9 not pay access charges for traffic that is within the
10 same major trading area. Therefore, at the extent, for
11 example, that wireless carriers are competing with
12 wireline long distance carriers for intrastate long
13 distance services, then the policy discriminates against
14 wireline carriers.

15 And at the time this rule was promulgated,
16 the importance of wireless competition in the long
17 distance market was significantly less, if at all, and
18 therefore, that particular level of discrimination did
19 not exist. We also did not have at that time a
20 particularly active involvement by the incumbent local
21 exchange carriers themselves competing in the retail
22 long distance market with interexchange carriers.

23 So it is in the context of changed conditions
24 and the fact that this charge is not being applied
25 consistently to all providers of long distance services

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1 in Washington that it is no longer sort of a
2 competitively neutral policy that I'm sure the
3 Commission intended it be.

4 Q. Thank you, Dr. Selwyn. And are you aware
5 that your client, AT&T, at the time the access charge
6 rule was being promulgated opined to the Commission
7 precisely what you're opining here, namely that all
8 access charges should be reduced to LRIC based levels?

9 A. I'm not specifically aware of it, but I'm
10 also not surprised. I believe that has been AT&T's
11 position as a general matter for some time.

12 Q. And the Commission, of course, did not adopt
13 that position, because they adopted the rule that
14 established the ITAC, correct?

15 A. Apparently. But the facts on the ground were
16 quite different in terms of market conditions and
17 competitive conditions at the time that this rule was
18 adopted than they are today.

19 Q. Thank you, Dr. Selwyn. Now I would like to
20 turn to your calculation of the price floor. Again we
21 referred to earlier on page 26 of your rebuttal
22 testimony in Exhibit T-3-R where you explain that the
23 price floor is a little more than 14 cents per minute,
24 exactly .1444, correct?

25 A. That's correct.

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1 Q. Now I would like to talk just briefly about
2 how you calculated that figure, and it's my
3 understanding, Dr. Selwyn, that that figure is the
4 result of three components: Number one, the weighted
5 price of access service based on Verizon's tariffed
6 access charges; number 2, retailing and marketing costs;
7 and number 3, billing and collection costs. So if I add
8 up those three components, I arrive at your price floor
9 of a little more than 14 cents. Is that a fair summary?

10 A. Yes.

11 Q. Now rather than -- I will refer you to your
12 testimony if you need, I just want to try and summarize
13 what each of those components are. First, the imputed
14 price of access, the weighted average, you calculated to
15 be .0989, a little more than, well, more than 9 cents,
16 almost 10 cents; does that sound right?

17 A. Yes.

18 Q. Your billing and collection component was
19 about a penny and a half, .0155, correct?

20 A. That's correct.

21 Q. And your retailing marketing cost is 3 cents,
22 .03. So when you just simply add all those up, you
23 arrive at 14.44 cents, correct?

24 A. Yes.

25 Q. Now let's talk about your imputed price of

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1 access, the first component. I believe you calculated
2 that based on Verizon's tariffed rates and Verizon's
3 response to Staff Data Request Number 7, and that data
4 request includes traffic distribution figures, holding
5 times that enabled you to calculate the weighted price,
6 correct?

7 A. Yes.

8 Q. Are you aware that Verizon updated those
9 figures in response to Staff Data Request Number 26?

10 A. I believe so, yes.

11 Q. But your calculation doesn't reflect those
12 updated figures, correct?

13 A. I think that's right.

14 Q. Now if we can move to the other two
15 components, the retail marketing component, again we
16 discussed that your calculation was, of retail marketing
17 costs, is 3 cents per minute of use.

18 A. Correct.

19 Q. Now as I understand that, Dr. Selwyn, that is
20 an estimate of interexchange carriers' marketing
21 expenses; is that correct?

22 A. Yes.

23 Q. Is it your position, Dr. Selwyn, that in
24 establishing a price floor for Verizon Northwest toll
25 service, the Commission should not use Verizon's long

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1 run incremental cost of marketing, but should instead
2 use an estimate of interexchange carriers' cost?

3 A. Yes, for several reasons. First of all,
4 Verizon's long run incremental cost of marketing is
5 itself based upon extensive use of already existing
6 relationships which effectively are exploited for the
7 purpose of gathering or launching a marketing program
8 incremental to the preexisting relationship. It would
9 be patently unfair to and it's already unfair that in a
10 sense in the market that Verizon is permitted to exploit
11 or that incumbent LECs generally are permitted to
12 exploit their preexisting relationships.

13 Q. Excuse me, Dr. Selwyn, if I may interrupt for
14 just a moment, I asked you whether you thought it's your
15 position that the Commission should develop a price
16 floor not based on Verizon's LRIC of marketing expenses,
17 but other IXCs, and you said yes, and now you're going
18 on to explain it. For purposes of speeding this hearing
19 along, please go ahead and complete your explanation, I
20 can follow up. But I would ask my colleague at the bar,
21 Mr. Kopta, on redirect to recognize that I'm allowing
22 Dr. Selwyn to go on in his explanation to try and
23 shorten things up, and I hope that works out.

24 So please go ahead, Dr. Selwyn, continue with
25 your explanation.

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1 A. Let me start from the beginning, because I'm
2 not sure where I was. What we are trying to do here is
3 to come up with a price floor that represents the
4 realistic costs that competitors in the market operating
5 on an equivalent basis to the incumbent would be
6 confronted with to prevent a price squeeze. Now Verizon
7 already has preexisting relationships with its
8 customers, so that Verizon's incremental cost of
9 marketing to legacy customers is necessarily
10 substantially less than the costs that other carriers
11 would incur in marketing their services, so Verizon
12 starts out with a very substantial advantage with
13 respect to those legacy customers.

14 When intraLATA presubscription came into the
15 market, there was no requirement, for example, for
16 balloting or the automatic transfer of customers to
17 competitors. Verizon basically got to keep all of its
18 existing customers subject to marketing efforts by its
19 rivals.

20 So it's reasonable to ascribe a marketing
21 cost for purposes of determining a price floor that
22 reflects realistic marketing costs that a downstream
23 competitor would have to incur and that the only reason
24 Verizon itself is not necessarily incurring those costs,
25 and it's not even clear that they're not, is simply

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1 because they are gaining advantage of legacy
2 relationships.

3 And so what I'm attempting to do here is to
4 develop a price floor that allows for competition. If
5 you start to simply permit the incumbent to not only
6 utilize its legacy advantages but to then not even
7 ascribe any implicit value to them for purposes of a
8 price floor, then you almost guarantee that competition
9 can't exist.

10 Q. So, Dr. Selwyn, the short of the matter is
11 you don't think Verizon Northwest's toll price floor
12 should be based on Verizon's long run incremental costs
13 of marketing expenses for all the reasons you state in
14 your testimony; that's the bottom line, correct?

15 A. It should be based on the long run
16 incremental cost of marketing with a proper attribution
17 of joint and common costs that are joint and common to
18 both monopoly local services and long distance services.

19 Q. Dr. Selwyn --

20 A. To long distance.

21 Q. Dr. Selwyn, now let's look at your estimate.
22 You relied on an estimate of IXCs' marketing costs. Did
23 you ask your client what its marketing costs were on a
24 per minute of use basis?

25 A. No, I did not.

0459

1 Q. Your client's a big interexchange carrier,
2 right?

3 A. Correct. I relied on estimates provided by,
4 among others, Dr. William Taylor, who is, of course, a
5 frequent Verizon witness.

6 Q. Thank you, Dr. Selwyn. Now let's go to the
7 last component of your price floor. We talked about the
8 price of access and the weighted average and how you
9 derived that, we talked about the retailing and
10 marketing expenses, now I would like to turn to the
11 billing and collection expense, the last part, the last
12 component of your floor. You believe that the B&C cost
13 should be a little more than a penny and a half a
14 minute, .0155, right?

15 A. Right.

16 Q. And as I understand your calculation, you
17 took the price that Verizon New York charges Verizon
18 Long Distance for B&C services, which is \$1.15 per
19 account according to your testimony, and you divided
20 that by 74, which you state is the average number of
21 residential interLATA toll minutes of use per month
22 based on an FCC analysis. So if I take the 115, divide
23 by 74, I get .0155; is that correct?

24 A. Correct.

25 Q. So as with retail marketing, Dr. Selwyn, it's

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1 your position that in establishing the price floor for
2 Verizon's toll service, the Commission should not use
3 Verizon's long run incremental cost of billing and
4 collection, but should instead use the price Verizon New
5 York charges Verizon Long Distance for billing and
6 collection?

7 A. Well, I used the price that Verizon New York
8 charges Verizon Long Distance simply as a surrogate for
9 an estimate here, which at the time I was unable to
10 find. But the general -- generally yes, I mean I'm
11 basically saying what the -- what the -- Verizon charges
12 its own affiliate spread over the average number of
13 minutes that would be expected per account is a
14 reasonable basis to determine billing -- an appropriate
15 incremental billing and collection cost.

16 Q. Thank you, Dr. Selwyn. Now I would like to
17 turn to one other calculation you make. We have talked
18 about the price floor calculation and comparing that to
19 Verizon's average rate per plan, but you make another
20 calculation, and that is the long run incremental cost
21 of access where you think access should be priced at,
22 correct?

23 A. Yes.

24 Q. And I believe your proposed cost of switched
25 access is .0030263 per minute of use for a one way call.

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1 And for reference for everyone, that would be your
2 direct testimony, Exhibit T-1 at page 12.

3 A. And that's at 13. Is that what you're
4 referring to?

5 Q. I believe it was page 12, Footnote 11.

6 CHAIRWOMAN SHOWALTER: It's 13.

7 JUDGE SCHAEER: Would you look at the page,
8 please, Mr. Carrathers, and verify which it is.

9 A. I see that number in Footnote 13.

10 BY MR. CARRATHERS:

11 Q. Oh, I'm sorry, in Footnote 11 you simply
12 doubled it for a two way call, .0060526, right?

13 A. Yes.

14 Q. So if I take the figure I mentioned, you
15 multiply it by two, you got .006, so let me rephrase my
16 question to clarify.

17 Your proposed cost of switched access, long
18 run incremental cost of switched access for a two way
19 call, is that .0060526?

20 A. For clarification, what you're referring to
21 as a two way call is a call that requires switched
22 access at both ends, both originating and terminating
23 ends.

24 Q. Correct, thank you, Dr. Selwyn. One
25 component of that cost is the cost of tandem switching.

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1 A. Yes.

2 Q. And I believe you used Qwest's tandem
3 switching rate that this Commission established in
4 Qwest's UNE docket, which was .00141; is that correct?

5 A. Yes.

6 JUDGE SCHAER: Excuse me, counselor, could
7 you give that docket number again?

8 MR. CARRATHERS: Actually, Your Honor, I
9 don't have the docket number, but in Footnote 11 of
10 Dr. Selwyn's direct testimony, page 12, he refers to WNU
11 42, a Qwest tariff.

12 JUDGE SCHAER: Okay. You had given a docket
13 number, I thought five numbers, and we have six number
14 docket numbers, so I was a little concerned.

15 THE WITNESS: I think that was a price, not a
16 docket number.

17 MR. CARRATHERS: Thank you, Your Honor.

18 JUDGE SCHAER: Thank you, just clarifying
19 that.

20 MR. KOPTA: Just for the record, the docket
21 is UT-003013.

22 JUDGE SCHAER: Thank you.

23 BY MR. CARRATHERS:

24 Q. And, Dr. Selwyn, are you aware that the
25 Commission has established a tandem switching rate for

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1 Verizon that is reflected in Verizon's unbundled network
2 element tariff?

3 A. I am now.

4 Q. Okay, well, not to belabor the point, the
5 tariffed rate is .0044790, significantly higher than the
6 Qwest rate, and if you would just take subject to check,
7 and if, you know, you all disagree, then just let me
8 know.

9 A. All right.

10 Q. Okay. So again, just to summarize, you
11 calculate the LRIC of access, we talked about one of the
12 components of your LRIC being the tandem switching rate,
13 you used Qwest's rate, Verizon now has a rate, and I
14 would like to talk to you very briefly about one more
15 component, and that's the local switching component.
16 You believe that the local switching component of the
17 LRIC of providing access service is .0014151 per minute
18 of use.

19 JUDGE SCHAER: Can you give us the page and
20 line reference, please, counsel, so we can follow.

21 MR. CARRATHERS: Yes, Your Honor, the page
22 number is page 11 of Dr. Selwyn's direct testimony, line
23 13, actually 12 and 13.

24 JUDGE SCHAER: Thank you, go ahead.

25 A. Yes.

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1 BY MR. CARRATHERS:

2 Q. Dr. Selwyn, do you know what AT&T
3 Communications charges for local switching in its FCC
4 Tariff Number 28?

5 A. No.

6 Q. Thank you, Dr. Selwyn. I now would like to
7 move on to another different subject you address, and
8 that is the continuing property record audit. And if
9 you refer to your rebuttal testimony, T-3-R, around page
10 35.

11 A. Yes.

12 Q. I will just have a handful of questions about
13 that audit, Dr. Selwyn. Do you know whether the audit
14 included Washington state?

15 A. I know from Verizon rebuttal testimony that
16 apparently in the sample that was selected there were no
17 Washington state central offices.

18 Q. Thank you, Dr. Selwyn.

19 A. But now I say that with the following
20 proviso. In a sample situation, in a sampling situation
21 where you're not looking at 100% of or even a large
22 percentage of the total universe, necessarily the
23 selection of observations, of sampling observations,
24 will be limited. I am not aware that Washington was not
25 included within the scope of the study. Whether or not

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1 the sample -- there would happen to have been those
2 samples drawn from Washington, to the best of my
3 knowledge the study was of all of GTE, which would have
4 included Washington, and apparently there were no
5 Washington central offices included in the sample, but
6 that does not in any sense suggest that Washington was
7 not included in the study. And I have no knowledge
8 specifically that Washington was not included in the
9 study, only apparently that there were no Washington
10 central offices included in the sample. But if the
11 sample was representative, and I have not heard any
12 evidence suggesting it was not, then Washington
13 effectively was included in the study.

14 Q. So, Dr. Selwyn, let me ask my question again.
15 Do you know whether the audit itself applied to
16 Washington state?

17 A. I believe it did, but I don't know that as an
18 absolute fact.

19 Q. When was the audit conducted?

20 A. It was conducted in the mid 1990's. The
21 report was issued in 1999.

22 Q. Has the FCC itself ever endorsed or approved
23 the audit?

24 A. The audit investigation was basically shut
25 down as part of the so-called CALLS, the C-A-L-L-S,

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1 settlement and was not further pursued. So the FCC has
2 neither ratified nor determined the audit report to be
3 invalid.

4 Q. Do you know whether any state conducted a
5 review of the FCC's audit?

6 A. I'm not aware of any specifically that have.
7 I also know, however, that the CALLS settlement did not
8 preclude states from pursuing it.

9 Q. Dr. Selwyn, I would like to refer you to
10 Exhibit Number 93. You should have that in your package
11 of cross exhibits.

12 A. Is that the Texas?

13 Q. That's the Texas evaluation of the audit.

14 A. Yes, I have it.

15 Q. Thank you, Dr. Selwyn. And I won't ask you
16 to go through the entire analysis, but if you turn to
17 the last page of text.

18 A. By the way, this is a staff memorandum, it's
19 not a finding of the Texas PUC.

20 Q. Thank you, Dr. Selwyn.

21 A. As I understand it.

22 Q. Thank you, Dr. Selwyn. In fact, the last
23 paragraph in that memorandum says:

24 Based on the staff's review, no specific
25 action regarding the audit report is

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1 necessary.

2 And in that report, it explained that GTE,
3 for example, had incorporated a bar coding mechanism,
4 that to the extent GTE found that there were some, a
5 relatively small portion, .18% of its central office
6 investment, was put improperly, a reconciliation amount
7 was made. So my question for you, Dr. Selwyn, do you
8 know whether and when Verizon Northwest in Washington
9 established bar coding?

10 A. There was some testimony I think as a part of
11 -- that was submitted by Verizon responding to my
12 testimony on that subject, and I don't remember
13 precisely when that was. It was sometime in the 1990's.

14 Q. Thank you. And similarly do you know whether
15 any reconciliation amounts were booked for Washington as
16 a result of investigation and tagging of these basic
17 property records?

18 A. I don't recall. I'm not -- when you say
19 reconciliation amounts were booked, I'm a little
20 confused, because in reading this last page of the Texas
21 document, in the right-hand column when they describe
22 the accounting entry that was made to book the
23 reconciliation, the particular accounting entry that's
24 described actually has no effect on rate base.

25 Q. Well, didn't --

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1 A. So it's not clear to me what got booked as a
2 reconciliation entry.

3 Q. My final question, Dr. Selwyn, are you aware,
4 has the Washington Staff or Washington Commission
5 conducted an audit of Verizon's property records?

6 A. I don't know.

7 MR. CARRATHERS: Thank you.

8 May I have just a moment, Your Honor?

9 JUDGE SCHAER: Certainly.

10 MR. CARRATHERS: Thank you.

11 Thank you, Your Honor, at this point I am
12 going to surprise all of you and say I am finished with
13 my cross-examination of Dr. Selwyn.

14 JUDGE SCHAER: Well, thank you, counsel. And
15 thank you, Dr. Selwyn.

16 I believe that we have a next time estimate
17 from Staff of ten minutes. Are you ready to go,
18 Ms. Smith?

19 MS. SMITH: That's correct, Your Honor, and
20 we may be less than the ten minutes.

21

22 C R O S S - E X A M I N A T I O N

23 BY MS. SMITH:

24 Q. Good morning, Dr. Selwyn.

25 A. Good morning.

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1 Q. If you could please turn to page 18 of your
2 direct testimony, which has been marked as T-1 in this
3 docket, and in your Footnote 27 you say that Verizon
4 Northwest does not use its own switched access service
5 per se, and then you go on to clarify that Verizon's
6 treatment to itself is somehow more efficient than that
7 which it provides its competitors. Would you agree,
8 Dr. Selwyn, that under equal access Verizon Northwest
9 implicitly uses its own feature group C access service
10 while its competitors, including AT&T, must use
11 Verizon's feature group D service?

12 A. I think that that is probably effectively
13 what is taking place, the distinction being that feature
14 group C, which was a transitional access arrangement
15 that was established at the time in the immediate
16 aftermath of the breakup of the former Bell system,
17 essentially used integrated local and long distance
18 routing arrangements that had existed prior to the
19 breakup for the routing of AT&T traffic, which then
20 subsequently were reconstructed into a feature group D
21 serving arrangement in which the traffic, the access
22 traffic, was segregated from the ILEC specific traffic.
23 So what's happening here is that for intraLATA toll
24 calling, Verizon is effectively simply routing the
25 traffic over its network, and there's no specific access

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1 service per se, which is basically what we had under the
2 old feature group C.

3 MS. SMITH: Thank you, Dr. Selwyn, that's all
4 I have.

5 JUDGE SCHAER: Public Counsel, Mr. Cromwell,
6 did you have any questions?

7 MR. CROMWELL: I do not, Your Honor, thank
8 you.

9 JUDGE SCHAER: Commissioners, do you have
10 questions for Dr. Selwyn?

11

12 E X A M I N A T I O N

13 BY CHAIRWOMAN SHOWALTER:

14 Q. Good morning, could you turn to your rebuttal
15 testimony, T-3C, page 20.

16 A. Yes.

17 Q. Specifically lines 15 to 17, you say that the
18 correct policy should be that 100% of the gains from the
19 joint production of regulated and non-regulated service
20 should go to the regulated service. And I'm wondering
21 why you say that. I really -- you do go on to give an
22 explanation, I guess intuitively I might have thought --
23 oh, I will give -- do you need a chance to read that
24 statement?

25 A. No, no, I'm getting another document that I

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1 want to refer you to.

2 Q. All right.

3 A. I'm sorry, you can continue to ask your
4 question.

5 Q. Perhaps naively or intuitively you would
6 think there would be some prorata share. I wish you
7 would give me the rationale for why 100% should go to
8 the regulated side.

9 A. Well, let me -- first of all, I would refer
10 you, if I can, and I believe these are -- this is being
11 marked by Verizon as an exhibit, but my response to
12 Verizon request, Data Request Number 45 to AT&T
13 elaborates on this point, and I would refer you to that.

14 CHAIRWOMAN SHOWALTER: Is that an exhibit
15 number?

16 MR. KOPTA: Exhibit 56.

17 CHAIRWOMAN SHOWALTER: Exhibit 56, thank you.

18 A. Now but let me try to explain it, Chairwoman
19 Showalter, in this way. Verizon is a rate of return
20 regulated company, and that means that the shareholders
21 of the company are entitled to a fair return on that --
22 on their investment. Well, how does one measure return.
23 Now if this company were engaged entirely in the
24 provision of regulated public utility services, we would
25 measure return as essentially the cash profit after

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1 debt, after taxes, after operating expenses, and simply
2 ratio that to rate base and develop a rate of return on
3 that basis.

4 Well, we have a company that is engaged in
5 both regulated operations and non-regulated operations,
6 either directly or in conjunction with a non-regulated
7 affiliate. It is utilizing resources of the regulated
8 entity for the benefit of its non-regulated operations,
9 and in so doing is creating a condition where the
10 non-regulated operations can provide services or perform
11 their functions at a relatively low incremental cost
12 simply because the fixed costs are already there.

13 It's kind of like somebody who has a 9:00 to
14 5:00 job for a company, at 5:00 when he or she gets off
15 work simply then uses his or her office and desktop
16 computer and other, you know, resources which would
17 otherwise be shut down after 5:00 to conduct a side
18 business, obviously at a very low incremental cost.
19 Normally that kind of thing, if it were permitted, the
20 employer would typically want a piece of that, and
21 normally it probably wouldn't even be permitted.

22 Effectively the benefit that a rate of return
23 regulated utility derives from utilizing utility assets
24 for the purposes of incrementally engaging in a
25 non-regulated business, that benefit represents part of

0473

1 the return on that investment. And all I'm saying in
2 the testimony you cite and in my response in Exhibit 56
3 is simply that those benefits should simply be counted
4 as part of return. That's not to say -- as an economist
5 I certainly would want to see the efficiency gained. In
6 other words, if there are efficiencies in joint
7 production, by all means take advantage of them.

8 The issue is, does the utility get to book
9 its cash return from its utility operations and then
10 take this sort of additional return over and above that.
11 And I believe in the context of a rate of return
12 regulated utility that it should not be authorized to do
13 that. That simply produces excess return.

14 And I think this is effectively the same
15 principle or principle that is essentially established
16 in such cases as Democratic Central Committee, which
17 addressed the use of utility assets that are in effect
18 where the risks of loss and the burdon of recovery is
19 born by rate payers, that the gains from the use of
20 those assets to rate payers. So the issue here is if
21 you have a fixed cost and a fixed cost that represents a
22 joint cost of a regulated and a non-regulated activity,
23 then the -- what has to be considered incremental for
24 this purpose is that the incremental gain has to flow to
25 the regulated activity.

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1 Here you have a situation in which, for
2 example, the access charge rule that counsel was
3 discussing with me earlier is designed to effectively
4 allow Verizon to ostensibly generate the appropriate
5 return on its investment by attaching a surcharge onto
6 -- over and above the cost of the service, and yet when
7 the same or other utility assets are used for
8 non-regulated activity, effectively the gains from that
9 aren't being flowed back to offset the very same
10 investments to provide a return on the very same
11 investments that Verizon is being permitted to impose a
12 charge on to recover, and that to me is simply an
13 inconsistent treatment.

14 BY CHAIRWOMAN SHOWALTER:

15 Q. So does the -- and actually, may I request
16 that you give shorter answers.

17 A. I'm sorry.

18 Q. And this has to do with my attention span, I
19 simply can't absorb the whole answer, and so then it
20 makes it very difficult for me to ask the follow-up
21 questions, so I'm back at about the first minute of your
22 answer.

23 A. Okay.

24 Q. So is the premise of your testimony here that
25 because the assets involved are regulated and there is a

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1 return, a regulated return on them, that for that reason
2 there shouldn't be an allocation of them over to the
3 non-regulated side? Is that -- I understand the
4 Democratic Central case, so once you said that, I think
5 I know what you're talking about. But are you saying
6 that because the facilities involved are the regulated
7 ones and there is already a return on them, that is a
8 rate of return on them, that therefore the revenues
9 deriving from them need to be counted in the regulated
10 side of things?

11 A. Yes.

12 Q. All right. But then I guess the next
13 question I have is, I think the next question I have is,
14 is that actually the case, that is that all of these
15 facilities that are being used for both the regulated
16 side and the competitive, the non-regulated side, are in
17 rate base, why wouldn't one expect some sharing or
18 allocation or division of that as well?

19 A. Well, division is occurring almost after the
20 fact. I mean, you know, as an example, Verizon Long
21 Distance is an affiliate of the Verizon operating
22 companies. It is the -- it is by Verizon's own
23 announcement the third largest long distance carrier in
24 the United States. It has something in excess of 13
25 Million customers, and yet the company has something in

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1 the range of 1,000 employees or less nationwide. And
2 the reason for that is because virtually -- the vast
3 majority of that company's business is conducted by
4 employees of the operating companies, who are paid
5 either by the hour or by the sale or by -- in some other
6 manner. And those employees and all of their -- the
7 support resources, their buildings that they -- and that
8 house them and the desks that they sit at and the
9 computers that they use and on and on.

10 MR. CARRATHERS: Your Honor, if I may
11 briefly, just for the record I would like to object to
12 Dr. Selwyn's belief or statements as to what Verizon
13 Long Distance costs are or how its server provides most
14 of its services by using employees that it's not
15 affiliated with until -- he's not established an
16 evidentiary foundation for that, and so to the extent
17 he's offering that for the truth of the matter asserted
18 as opposed to just his belief, we object.

19 Q. Well, I will just say I have a sense you can
20 answer the question without getting -- what I heard the
21 gist of you saying is that if a company uses its
22 regulated side to conduct almost all of its operations
23 and the non-regulated side involves a very small amount,
24 there's not much allocation to be done. Is that pretty
25 much what you were saying? And you could just keep it

0477

1 more abstract, I think, than talking directly about
2 Verizon.

3 A. Well, you could make a cost allocation on
4 some fully distributed cost basis, which -- but the
5 problem there is that that effectively is not focusing
6 on the benefit that is being derived, which is really
7 what the return on investment is, it's simply making
8 some arbitrary cost allocation. And the correct
9 approach in my view in a rated -- particularly in a case
10 of rate of return of a regulated company is that if
11 utility assets are being utilized, then the gains from
12 the joint production activity flow back to offset the
13 costs of the utility assets, not some arbitrary
14 allocation of fully distributed costs.

15 Q. Okay. A couple of follow-up questions.
16 There was just -- you had discussion of our access
17 charge rule and why you feel it is not competitively
18 neutral. My question is, can we lower access charges in
19 the manner that you want us to and still comply with our
20 rule, or do you think we have to disregard our rule or
21 change it in some way?

22 A. I'm not sure, and let me explain why. The
23 problem arises because the 1993 federal omnibus Budget
24 Reconciliation Act confirms over wireless carriers to
25 the FCC, and in the 1996 first local competition order

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1 the FCC established in fact preempting the states with
2 respect to the definition of wireless local calling
3 areas and the access charge rules that would apply to
4 wireless carriers. So you have a situation where you
5 have wireless carriers competing in the intrastate
6 market, and yet those carriers are simply not subject to
7 the most part to your intrastate access charge rules.

8 And that is a condition that did not exist in
9 1993 when the federal statute was passed or in 1996 when
10 the Telecom Act was passed or when the FCC local comp
11 order came out. So those conditions have changed in the
12 market dramatically since then, and the rule that might
13 have been competitively neutral at the time it was
14 enacted is no longer competitively neutral. Now the
15 problem is you can't apply the state rule to wireless
16 services, because they're preempted, they're federally
17 preempted.

18 So, you know, it may be -- it may be possible
19 to make some adjustments in the amount of universal
20 service contribution, find other sources for it, but I'm
21 not aware of any way that you could include wireless in
22 there, and wireless is becoming a major factor in the
23 market.

24 Q. Okay. And you say the rule is not
25 competitively neutral because it doesn't -- it isn't

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1 able to capture wireless long distance vis a vis
2 wireline, and then is the reason that you are affected
3 as an IXC is that you are relying on wireline so that
4 you too are paying that charge? Is that the beef that
5 you have with it?

6 A. AT&T is a wire -- provides wireline long
7 distance services in competition with wireless carriers
8 who integrate long distance services into their wireless
9 offerings. And what has been observed not -- generally
10 in the industry, including in a report issued by the FCC
11 annually on local competition, I'm sorry, on wireless
12 competition, is that there is substantial growth in
13 substitution of wireless services for wireline. If a
14 wireline carrier is -- were unable to -- who are
15 required to recover access charges in their retail
16 prices are unable to compete on the same basis as
17 wireless carriers who are essentially providing what
18 amounts to free long distance services, whereas wireline
19 carriers are still being required to recover access
20 charges, and that disparity is causing retail consumers
21 to use their wireless phones to make long distance calls
22 instead of using their local wireline phones.

23 Q. All right. And then another follow-up
24 question, you had a discussion about what Verizon's
25 imputation floor should or shouldn't be, and you have a

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1 dispute with Verizon about how to calculate it. But if
2 the floor were determined based on let's say Verizon's
3 -- this company's direct or real costs, that is to
4 disregard your additions of imputing a certain cost, and
5 if the company charged itself the same amount as it
6 charges its competitors, does that -- would that
7 eliminate the price squeeze? What I'm trying to get at
8 is, passing over the question of where that floor should
9 be, if Verizon charged itself the same as it charges
10 others, does that eliminate the price squeeze, and is
11 that something like the bridge? I forget your analogy,
12 but --

13 A. Lower the river or raise the bridge.

14 Q. Yeah. What I'm trying to do is get a sense
15 of what elements in your view are critical to overcoming
16 your complaint.

17 A. Well, let's -- let me, at the risk of being
18 somewhat lengthy, I will try not to be.

19 Q. All right.

20 A. Let's assume away the wireless issue for the
21 moment, and let's assume that the price floor that
22 Verizon is conceiving, which incidentally is a
23 proprietary number, and I can't say it in a public
24 transcript record, let's assume that that were to apply.
25 The question is, would the price squeeze still exist,

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1 could competitors compete. And the answer is
2 unquestionably yes to the first, yes, there would still
3 be a price squeeze, and no, competitors would not be
4 able to compete, and here's why. First of all --

5 Q. But could I just interrupt you. As I heard
6 you restate the question, I don't think it was my
7 question. I believe you said assume away the wireless
8 and take what Verizon says is its real cost. And my
9 question was, take what, well, you can assume away the
10 wireless, take what Verizon says is its cost, but what
11 would happen if they were required to charge themselves
12 the same as they charge their competitors. I'm trying
13 to isolate that.

14 A. You mean charge the wireless --

15 Q. No, I was not thinking about wireless in this
16 question.

17 A. Well, that's what I thought, that's why I
18 said let's take wireless out.

19 Q. Okay.

20 A. I mean if you put wireless in the picture,
21 let's say for the sake of argument just picking a number
22 out of the air that Verizon's price floor is 10 cents.

23 Q. Okay.

24 A. And that's -- and the vast majority of that
25 consists of access charges. Wireless carriers don't pay

0482

1 that, so wireless basically is able to offer long
2 distance services at well below 10 cents, close to 0 in
3 many cases, and therefore creates a price squeeze for
4 wireline interexchange carriers. But let's ignore
5 wireless for the purposes of addressing the question and
6 focus sort of on Verizon specifically.

7 Any other -- if Verizon set its access charge
8 at something close to 10 cents and the -- simply because
9 the -- its claims as to non-access costs are -- that's
10 where the bulk of the dispute between my calculation and
11 Verizon's is, that Verizon sees very low non-access
12 costs, and I ascribe much higher ones. If Verizon sets
13 its access charge at close to 10 cents and prices its
14 service at 10 cents, but any other competitor will have
15 to incur marketing costs, billing and collection costs,
16 and certain non-network costs to actually -- over and
17 above access to connect the call, then that carrier
18 would be in a position where the payments it makes to
19 Verizon plus its own non-access costs would force it
20 into a price situation that is well above in order -- in
21 order to just break even, they would have to set a price
22 well above what Verizon has interpreted to be its price
23 floor, so therefore, there would continue to be a price
24 squeeze.

25 Now the problem is further compounded by the

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1 fact that this notion of Verizon charging itself the
2 same price that it charges everybody else, when there's
3 an affiliate involved, the affiliate is not per se bound
4 by any -- or at least it is Verizon's position as I
5 understand it that the affiliate is not bound by any
6 imputation requirement so that the affiliate could
7 effectively pay Verizon a high price that represents
8 something above Verizon's -- Verizon Northwest's nominal
9 price floor, but then the affiliate could set its retail
10 price below that level, below Verizon's price floor, and
11 simply swallow the difference. Because it's an
12 intracompany transaction, it doesn't really much matter
13 whether the profit is earned in the operating company or
14 in the affiliate. From the corporate standpoint, it
15 doesn't -- it's completely transparent. And where that
16 is taking place, and I believe it is taking place here
17 in Washington, then a non-affiliated competitor is
18 absolutely in a price squeeze situation.

19 Q. All right. Then now I want to ask sort of
20 the obverse follow-up question I think. If we do end up
21 lowering access charges in the manner that you want, is
22 there still a problem in your eyes because we can't get
23 at wireless? Are we just improving the situation but
24 can't perfect it because we can't capture wireless?

25 A. Well, ideally if access charges were lowered

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1 to cost, and by cost I'm speaking here of switching and,
2 you know, various associated network costs, then the
3 wireline and wireless costs would become comparable. So
4 that AT&T's payments to Verizon for access services
5 would roughly correspond with what a wireless carrier
6 would pay Verizon to terminate a intra major trading
7 area call which is considered local in the wireless
8 world onto a Verizon wireline subscriber. So
9 effectively we would reestablish competitive neutrality,
10 because the cost of terminating the charge that Verizon
11 would impose on a connecting carrier, whether it be a
12 long distance carrier or a wireless carrier, for
13 terminating a call on the Verizon network would then be
14 the same.

15 In other words, Verizon is charging its
16 wireless -- it's charging wireless carriers that
17 interconnect with Verizon a cost based UNE, unbundled
18 network element, termination charge under reciprocal
19 compensation. But for the very same call if it's placed
20 by a wireline interexchange carrier, they're charging an
21 access charge. So you have a charge to the wireless
22 carrier of well under a penny for a call that for a
23 wireline interexchange carrier would be something much
24 closer to a dime.

25 Q. Okay.

0485

1 A. Or to, I'm sorry, to say 5 or 6 cents.

2 Q. So the short answer is that if we bring
3 access charges down to cost, as you see it it also
4 solves the wireless problem roughly.

5 A. Puts everybody back on the same playing
6 field.

7 CHAIRWOMAN SHOWALTER: Thank you.

8 (Discussion on the Bench.)

9 JUDGE SCHAER: We'll take our morning break
10 at this time. Let's come back about 5 minutes after
11 11:00.

12 (Recess taken.)

13 JUDGE SCHAER: Let's be back on the record
14 after our morning recess. At this point in the hearing
15 we are going to have questioning of Dr. Selwyn by
16 Commissioner Hemstad.

17 Go ahead, Commissioner.

18

19 E X A M I N A T I O N

20 BY COMMISSIONER HEMSTAD:

21 Q. Good morning, Dr. Selwyn.

22 A. Good morning, Commissioner.

23 Q. I am interested in your discussion of the
24 price floor and focusing on the issue of marketing
25 costs, and instead of, as you were asked on

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1 cross-examination, instead of using the long run
2 incremental cost of Verizon, you would use the 3 cents
3 as the estimate of the cost of the interexchange carrier
4 expenses, that would be then typically the cost that
5 AT&T would have?

6 A. Well, or that that would be the cost that any
7 non-integrated interexchange carrier would have on -- to
8 -- that is in terms of their cost of marketing to --
9 their services to new customers. And the -- I think, if
10 anything, that may even be a low estimate, but it
11 certainly -- for example, it's born out by one of the
12 studies referred to by Dr. Danner in his surrebuttal
13 testimony, in the portion of the surrebuttal testimony
14 that was not stricken as a matter of fact.

15 Q. Well, if that advantage of the integrated
16 company results from, your phrasing, the longstanding
17 relationships with the legacy customers, I suppose
18 that's an inherent advantage of the integrated company,
19 which translates then, doesn't it, into lower costs and,
20 if properly overseen, potentially lower prices to
21 consumers?

22 A. Yes. But, for example, that lower cost could
23 be accomplished by taking the gain that the -- by taking
24 the value of that advantage to the integrated company
25 and using that value, instead of flowing it to

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1 shareholders, using that value, which is a direct result
2 of its regulated activities, using it, for example, to
3 reduce access charges or other rates for regulated
4 services.

5 In other words, I'm not in any sense
6 suggesting that consumers be denied the benefit of that
7 integration. In fact, I'm actually suggesting that
8 consumers be guaranteed the benefit of that integration.
9 You have here the situation where Verizon on the one
10 hand is saying that consumers have to pay a substantial
11 excess over cost for access services while these gains
12 from its legacy operation flows to shareholders rather
13 than being used themselves to reduce access charges.

14 Q. Well, what I'm trying to get to is, is there
15 an inherent cost advantage of the economies of scope
16 here that get to the issue of -- is our concern about
17 how we ensure benefit to consumers, or should we be
18 concerned how we assure appropriate opportunity for
19 competitors?

20 A. I'm not sure there's actually a tension
21 between those two alternatives. You know, as a nation
22 we have made a policy determination that there is to be
23 competition in Bell communications, and the theory
24 behind that is that in the long term, the dynamic gains
25 from that competition will produce benefits and overcome

0488

1 what might best be described as short term
2 inefficiencies due to loss of scale or scope.

3 What we don't want to do is to inhibit that
4 competition from developing by effectively crippling
5 competitors by allowing the incumbent to gain undue
6 advantage due specifically to its incumbency rather than
7 to any inherent efficiency. In other words, Verizon
8 could be a less efficient company overall, but by virtue
9 of its incumbency would be in a position to set its
10 prices below those of its -- of non-integrated
11 competitors, and that is not a result that is beneficial
12 to consumers in the long run. And so the, you know, the
13 solution is to make sure that these gains from joint
14 production, gains from integration, flow back to
15 consumers rather than being used as a weapon against
16 competitors.

17 Q. Changing the subject to your discussion with
18 the audit issues and your assertion that there is an
19 overstatement of capital assets, I think your response
20 to the cross-examination inquiry here was ultimately
21 that issue was shut down by the CALLS, C-A-L-L-S, CALLS
22 decision of the USEC, does the CALLS decision itself
23 illuminate this decision at all, or does the issue in
24 effect go away?

25 A. Well, the CALLS -- no, the CALLS decision

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1 itself does not illuminate the issue at all. It just --
2 it was a comprehensive -- it wasn't a decision as much
3 as it was a settlement of a series of issues arising
4 from a court remand of an FCC order involving price caps
5 and some other matters that all got put together into a
6 -- into a comprehensive settlement wherein the incumbent
7 local carriers agreed to effectively maintain the
8 preexisting FCC determined price cap X factor, the
9 productivity adjustment mechanism, at 6.5% up to a point
10 where the access charges were reduced to a target level
11 of .55 cents, and at which point the further reductions
12 would stop. So you have a series of things going on
13 that ultimately led to an access charge just above a
14 half a cent for each of the -- each of the originating
15 and terminating ends, which is still above cost but not
16 very much above cost compared certainly to the
17 intrastate rates that we're seeing here and elsewhere.
18 But the settlement itself did not opine one way or the
19 other as to the efficacy of the order. That simply
20 terminated it.

21 Q. But there was no FCC order, was there, on the
22 issue of the overstatement of capital assets as an
23 overstatement of investment numbers, that was simply a
24 staff analysis?

25 A. It was a staff analysis, and there was no FCC

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1 finding one way or the other.

2 Q. So what weight are we to give to that kind of
3 an evidentiary posture?

4 A. Well, I raised that issue in my testimony as
5 part of a discussion in response to claims by Verizon
6 that were access charges -- were the Commission to order
7 reductions in access charges that it should be entitled
8 to effectively a dollar for dollar increase in other
9 rates. And what I addressed in my testimony, among
10 other things, was simply a series of conditions that in
11 my opinion would have -- had they been included in this
12 analysis would have demonstrated that the claimed
13 nominal rate of return that Verizon was claiming it was
14 realizing, which was in the 2% range if I recall
15 correctly, was not providing the Commission with a
16 complete picture. And I outlined several factors,
17 including, for example, the gains that Verizon was
18 realizing from its joint marketing of local and long
19 distance services, among others, and the audit was
20 simply part of that.

21 I wasn't in any sense suggesting that based
22 on my testimony the Commission make an affirmative
23 finding of a precise result of the audit, but rather it
24 was simply raising that as one of the issues that would
25 have to be examined before the Commission should just

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1 automatically provide a dollar for dollar offset to the
2 reduction in access charges.

3 If there were a general rate proceeding, for
4 example, following this case, if Verizon initiating a
5 proceeding, a request for additional rates, and made a
6 claim for additional revenues that were, for example,
7 based on the reduction in access charges that the
8 Commission might order, it would be my opinion that
9 among other things in evaluating that -- Verizon's
10 position, the Commission examine the audit.

11 And all we have heard so far is that the
12 problem is solved by bar codes, and, you know, my wife
13 informs me that when she goes to the supermarket, there
14 are many times that the bar code reader doesn't come up
15 with the right information, so I'm not absolutely
16 convinced that that in and of itself somehow resolves
17 the problem.

18 COMMISSIONER HEMSTAD: I will remember that
19 when I go to the grocery store. That's all the
20 questions I have.

21 COMMISSIONER OSHIE: I don't have any
22 questions of Dr. Selwyn, but thank you very much.

23 CHAIRWOMAN SHOWALTER: I have a follow-up to
24 the discussion you had with Commissioner Hemstad on the
25 marketing charges.

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E X A M I N A T I O N

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BY CHAIRWOMAN SHOWALTER:

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Q. If you give the value of the legacy regulated integrated company to the rate payers in the form of lower access charges and thereby allow or encourage competition, what happens when you get competition? In other words, is that value that you were trying to capture, does it dissipate over time if you succeed in competition?

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A. No, to the contrary. I mean the evidence in the interstate jurisdiction -- and I think I actually had something in my testimony on this, let me try to find it. In the interstate jurisdiction, the experience has been that reductions in access charges at the federal level have been flowed through and then some to consumers. That in other words they have not -- the access charge reductions have not been retained by the long distance providers but have been flowed through dollar for dollar, and, in fact, the price level reductions have actually exceeded, the retail price reductions on average have exceeded the reductions in access charges that have been -- that have occurred over the years at the federal level. So in my view, what we would see happening here is that if you were to reduce

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1 access charges down from their present levels, we would
2 see corresponding reductions in long distance rates.

3 Q. Okay. I can see I didn't ask the question
4 very well. I think what I meant to say is that if
5 competition succeeds, is it still fair, and this would
6 be in the future, to attribute that value to Verizon's
7 benefits and costs insofar as once it loses its legacy
8 advantage, what would become of that marketing charge
9 that you wanted to pass to the rate payers?

10 A. Well --

11 Q. It would seem as if it would evaporate over
12 time.

13 A. Well, but the legacy advantage itself would
14 evaporate.

15 Q. Right.

16 A. If Verizon instead of having, you know, a 90
17 plus percent share of the local market were down in the
18 30% or 40% or 50% share of the local market and were out
19 there, you know, scrapping along with all of the other
20 local competitors in this new market for customers, it
21 would not have -- it would no longer possess any
22 material marketing advantage vis a vis its markets. I
23 mean the marketing -- the analogy would be -- I mean
24 there was a time, for example, when AT&T as a legacy
25 long distance carrier in the, you know, immediate period

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1 before and immediately after the breakup of the Bell
2 system had incumbency advantages, and the way those were
3 dealt with at that time, and they were recognized as
4 being significant incumbency advantages, they were dealt
5 with first of all by giving its long distance rivals
6 such as MCI and Sprint and others heavily discounted
7 access services relative to the access charges that AT&T
8 had to pay.

9 And there was a process known as balloting so
10 that when equal access became available in a central
11 office, the incumbent at its expense was required to --
12 the incumbent local phone company at its expense was
13 required to send out ballots to customers giving them
14 the ability to select a long distance carrier. And for
15 those customers that didn't respond, a selection was
16 made automatically in proportion to those that did
17 respond.

18 None of that has happened in the post Telecom
19 Act era, and yet the incumbency advantages that the
20 operating companies possess are far greater than the
21 incumbency advantages that AT&T had in the long distance
22 market.

23 Q. So if we take your advice, would we expect if
24 things succeeded that over time in some period of time
25 these same access charges would have to be adjusted to

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1 reflect the fact that Verizon no longer had the
2 advantages of an incumbent; is that a possible scenario?

3 A. Well, the real question here is what's the
4 purpose of the access charge. If the purpose of the
5 access charge is to provide support for basic local dial
6 tone service, then I guess my suggestion would be that
7 some alternate method of providing that support if --
8 assuming it is still considered to be in the public
9 interest to provide that support, would have to be found
10 that would be competitively neutral. Imposing a charge
11 based on a particular category of calling outside of an
12 arbitrarily determined local calling area is not, in my
13 view, either competitively neutral or technology neutral
14 or, you know, even appropriate in this day and age.
15 There are very, very few, if any, significant cost
16 differences between local calls and long distance calls
17 other than access charges, and there's really no reason
18 to maintain this fiction that there's a distinction
19 between local and long distance. And yet, you know,
20 that distinction is created artificially by virtue of
21 continuing to maintain this policy distinction that says
22 long distance calls are a special category that get
23 burdened with access charges and nobody else does.

24 Q. So if things go according to plan the way you
25 would like to plan them, what ultimately would become of

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1 access charges?

2 A. Oh, I think access charges should, you know,
3 should ultimately be merged with the local inter carrier
4 competition -- inter carrier compensation arrangements
5 for -- that are applied with respect to interchange of
6 local traffic. I don't see that there should or --
7 continue to be a distinction made between identical
8 functions that are provided by the local exchange
9 carrier with the pricing distinction being introduced
10 based on whether or not the call itself is a local call
11 or a long distance call. The functions that the
12 incumbent or that the local exchange carrier provides in
13 both of those cases are virtually identical, if not
14 absolutely identical, and yet there is this enormous
15 difference in price, and the correct policy decision is
16 to eliminate that distinction ultimately.

17 And I'm not saying -- this is where I think
18 -- Ideally I think you should try to do it now, but if
19 you don't feel that for various public policy reasons it
20 should be done now, certainly take a major step in that
21 direction and reduce rates at least to match the
22 interstate level.

23 CHAIRWOMAN SHOWALTER: Thank you.

24 JUDGE SCHAEER: Anything further,
25 Commissioners?

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E X A M I N A T I O N

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BY JUDGE SCHAER:

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Q. Dr. Selwyn, I have one point, which I think is going to be more of a request that you and other parties follow up on a case that you cite and include it in your briefs, but if you look at AT&T's complaint filed April 2nd, 2002, at page 14, item 34.

9

A. In the complaint or in my affidavit?

10

Q. In the complaint, sir.

11

A. Okay, I don't think I have a copy of that.

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JUDGE SCHAER: Mr. Kopta, can you make a copy of that available?

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MR. KOPTA: Unfortunately, I can't, I'm sorry.

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MS. SINGER NELSON: I have a copy.

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THE WITNESS: Maybe I do, let me see. No, I don't.

19

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JUDGE SCHAER: Let's go off the record for just a moment.

21

(Discussion off the record.)

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BY JUDGE SCHAER:

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Q. In that area of the complaint, you talk about a federal court case that you say recently affirmed that ILECs may not recover universal service costs through

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1 switched access charges and argue that the court's
2 reasoning is equally applicable to interstate and
3 intrastate switched access. Do you see that?

4 A. Yes, that's the COMSAT case.

5 Q. Yes. And I'm just going to ask you if you
6 would in your brief or at some point provide an update
7 on the status of that proceeding or cases that follow
8 that, see how that issue has developed.

9 MR. KOPTA: We will certainly do that.

10 JUDGE SCHAER: Okay.

11 MR. CARRATHERS: And, Your Honor, just to
12 clarify, in one of the, of course, many motions we
13 filed, we addressed that very case and explained why it
14 doesn't stand for the proposition that Dr. Selwyn
15 claims, but we will be happy to address that again,
16 certainly will, in post hearing briefs.

17 JUDGE SCHAER: I think that we would like to
18 hear from everyone on that if we could, but thank you,
19 Mr. Carrathers.

20 So is there any redirect for this witness,
21 Mr. Kopta?

22 CHAIRWOMAN SHOWALTER: Don't we ask for
23 recross first before the redirect usually so that the
24 redirect has a chance to take in everything? I think
25 that's what we usually do.

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1 MR. CARRATHERS: Thank you.

2 JUDGE SCHAEER: Is there any recross then?

3 MR. CARRATHERS: Yes, yes, there is.

4

5 R E C R O S S - E X A M I N A T I O N

6 BY MR. CARRATHERS:

7 Q. Dr. Selwyn, early on Chairwoman Showalter was
8 asking you about the price squeeze that you allege and
9 how it can be alleviated. And, of course, Verizon
10 disagrees that there is a squeeze and your theory on
11 establishing the squeeze, and Dr. Danner, of course,
12 will speak to that when he takes the stand. But I
13 thought Chairwoman Showalter asked you a very direct
14 question, and it is this. Assume there is a price
15 squeeze, if Verizon's toll rates were raised, would that
16 remedy the price squeeze, and you gave a lengthy
17 response. Just to be perfectly clear, Dr. Selwyn, if
18 you turn to page 5 of your direct testimony, which is
19 Exhibit again T-1, referring again to line 21, 22, you
20 state clearly there and without qualification, the
21 Commission could eliminate the price squeeze by
22 requiring Verizon to raise its toll rates. You're not
23 changing your opinion, are you, Dr. Selwyn?

24 A. If by Verizon I can include all of Verizon's
25 affiliates, then I'm not changing my opinion.

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1 Q. Thank you. There was then some discussion
2 about the joint cost of operating, providing regulated
3 services and non-regulated services, and again I've got
4 a clarifying question or two for you. Of course,
5 Verizon Northwest provides intraLATA toll service. Is
6 it your belief, Dr. Selwyn, that the revenues Verizon
7 generates from its intraLATA toll service are not taken
8 into account when considering the company's regulated
9 earnings?

10 A. No, they are taken into account. They are
11 recorded above the line. The rates are not set by
12 tariff, but the revenues as I understand it are recorded
13 above the line.

14 Q. Thank you, Dr. Selwyn. And along that same
15 line of discussion, you talked about the benefits that
16 inure to an integrated company, and I believe
17 Commissioner Hemstad asked you a question, well, are you
18 saying that Verizon's price floor instead of its LRIC
19 should be the cost of an IXC. And I believe your answer
20 is, well, it should be the cost of a non-integrated, a
21 stand alone interexchange carrier. Is that correct, or
22 did I misunderstand your comment?

23 A. Effectively that's correct, yes. It should
24 be based on assignment of those portions of the joint
25 cost that would be stand alone costs for a

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1 non-integrated firm to the non-regulated service.

2 Q. Thank you, Dr. Selwyn. Now does AT&T in
3 addition to providing interstate toll service also
4 provide, for example, cable services, intrastate toll
5 services, wireless services? At one time it had a
6 wireless affiliate, but it spun it off. Didn't AT&T as
7 a communications provider that wanted one stop shopping
8 try and become and claims it is an integrated provider?

9 A. Well, let's first parse your question. AT&T
10 does not provide cable services, and it does not provide
11 wireless services. It did at some point, but it doesn't
12 today. AT&T's -- none of its -- to the best of my
13 knowledge, none of AT&T's services are categorized as
14 dominant -- as being provided by the dominant carrier.
15 None of them is subject to rate regulation. And given
16 the precipitous loss of market share that AT&T has
17 sustained since the breakup of the Bell system in the
18 long distance market, AT&T's opportunity to benefit from
19 any legacy or incumbency advantage at this point is
20 non-existent for all practical purposes.

21 So there is absolutely no comparability
22 between what a non-regulated non-dominant firm that is
23 integrated in several operating areas is or might do and
24 the conditions that apply where you have a firm that
25 operated under de jure and de facto monopoly and that

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1 still to this day operates under a defacto monopoly.

2 Q. Thank you, Dr. Selwyn. But I thought your
3 point was, instead of using Verizon's long run
4 incremental cost to establish a price floor, look at the
5 cost of a stand alone interexchange carrier. And
6 wouldn't that mean, Dr. Selwyn, that an integrated
7 interexchange carrier would have under your analysis an
8 unfair competitive advantage?

9 A. No, not the least, and I think that we're
10 quibbling here over the definition of what constitutes
11 integrated, and let me respond specifically by referring
12 you to one of your responses to an AT&T data request, if
13 I could find it. We had asked you to indicate, among
14 other things, the number of non-Verizon local service
15 customers that were -- that had selected Verizon Long
16 Distance as their primary interexchange carrier, and you
17 gave us a number which I believe is proprietary, but
18 suffice it to say it was a very small number. By
19 comparison, the number of customers that had selected
20 Verizon as their primary interexchange carrier who were
21 also Verizon local service customers was an enormous
22 multiple of that first number.

23 The vast majority of AT&T's customers who
24 take AT&T long distance service as their primary
25 interexchange carrier are not also AT&T local service

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1 customers, and, therefore, there is no integration
2 benefit, and from -- AT&T is not in that context an
3 integrated local and long distance company. It is a
4 long distance company that in a few markets is now
5 offering local service, but certainly none of its local
6 service customers that it is acquiring are legacy
7 customers either of its local or its long distance
8 business, and it certainly gains no integration
9 advantage of any consequence, not -- certainly nothing
10 comparable to Verizon's with respect to those few cases
11 where it's providing both local and long distance
12 service to the same customer.

13 Q. Thank you, Dr. Selwyn. So the bottom line in
14 all of this discussion is you continue to believe that
15 Verizon's price floor should not be based on Verizon
16 Northwest's long run incremental cost, but some other
17 standard presumably as you have discussed already, the
18 cost of other carriers?

19 A. No, it should be based on --

20 Q. No?

21 A. Just to clarify because, you know, you keep
22 trying to, I think, put words in my mouth that are not
23 precisely -- are not precisely what I am saying. And
24 what I am precisely saying is that the cost should be
25 based on the access charge plus the non-access costs

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1 that would be incurred without assigning all of the
2 joint costs to local services.

3 Q. Thank you, Dr. Selwyn. My final question,
4 Commissioner Hemstad asked you about the CPR audit. You
5 explained it was part of your earnings analysis, and you
6 provided some other potential adjustments to Verizon's
7 earnings. Do you know, Dr. Selwyn, that if one accepted
8 every adjustment you proposed whether the resulting
9 return for Verizon would still be lower than its
10 Commission authorized return? Have you performed that
11 calculation?

12 A. I have not performed it specifically. My
13 recollection is it's pretty close.

14 MR. CARRATHERS: Thank you.

15 May I have just one moment.

16 That's all we have, thank you.

17 JUDGE SCHAEER: Does Staff have anything
18 further?

19 MS. SMITH: Yes, Your Honor, thank you, we
20 have one question that follows up a question that the
21 Chairwoman had for Dr. Selwyn.

22

23 R E C R O S S - E X A M I N A T I O N

24 BY MS. SMITH:

25 Q. Dr. Selwyn, do you recall your discussion

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1 with the Chairwoman when you discussed that in your
2 testimony that wireless companies don't pay access
3 charges?

4 A. Yes.

5 Q. Would you agree that if a call is made from a
6 wireless customer to a wireline customer outside the
7 MTA, then the wireline company may assess access
8 charges?

9 A. Yes.

10 Q. Thank you.

11 A. And that's as I explained that in my
12 testimony. My statement was based on the fact that just
13 looking at the geography of Washington, the vast
14 majority of traffic is intraMTA so that the percentage
15 of wireless originated calls that would be subject to
16 access charges is very small.

17 MS. SMITH: Thank you, Dr. Selwyn. That's
18 all.

19 JUDGE SCHAER: Public Counsel?

20 MR. CROMWELL: No, thank you, Your Honor.

21 JUDGE SCHAER: Mr. Kopta?

22 MR. KOPTA: Thank you, Your Honor.

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1 R E D I R E C T E X A M I N A T I O N

2 BY MR. KOPTA:

3 Q. Dr. Selwyn, do you recall a discussion that
4 you had with Mr. Carrathers about the fact that Verizon
5 now has a Commission approved rate for tandem switching
6 as an unbundled network element in Washington?

7 A. Yes.

8 Q. Would you explain the discrepancy between the
9 number that you used in your testimony and this
10 additional information?

11 A. To the best of my recollection, at the time
12 my testimony was being prepared, the Commission had not
13 at that point adopted a rate for Verizon, and so I used
14 the Qwest rate as a substitute.

15 Q. And does using the rate that Verizon now has
16 on file in its unbundled network element tariff change
17 your testimony with respect to your conclusions?

18 A. No. I mean it would -- it would if the -- if
19 that rate were adopted, it would, as opposed to the
20 Qwest rate and a cost based access charge, the result
21 would be higher. But with respect to the remainder of
22 my conclusion, it has no effect.

23 Q. You also discussed with Mr. Carrathers that
24 Verizon had in I believe his words updated its
25 calculation of its access costs in a response to a Staff

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1 data request. Do you recall that discussion?

2 A. Yes.

3 Q. Have you had an opportunity to review what
4 happened with respect to that particular data request
5 and your testimony?

6 A. Yes. The response that -- to which he is
7 referring I believe was received by us on or about the
8 19th or 20th of September as our testimony was being put
9 into final form. And in reviewing the response, it
10 appeared to us that this was more than just an update
11 but that there were substantive changes being made in
12 the methodology relative to the prior imputation study.
13 We made the decision since the modifications were not
14 that significant and certainly wouldn't have changed our
15 conclusions to use the original study simply because we
16 would not have had a chance to explore the basis for the
17 changes, which I would then -- I would characterize as
18 more than just an update but as changes in methodology.

19 Q. And as we sit here today, do you believe that
20 it's appropriate to use the figures that Verizon
21 provided in that response to Staff's data request as
22 opposed to the figures that you have used in your
23 testimony?

24 A. Well, some of them may be. There were
25 changes made in the weighting of CCL minutes based on

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1 the density zone. That's probably assuming that the
2 data is accurate. Perhaps that should be done. That
3 would probably change the -- our results by something of
4 the order of a quarter of a cent a minute. They
5 included a figure for terminations to wireless services
6 for the first time and where effectively there's no
7 access charge but rather is a -- they had essentially
8 the reciprocal compensation rate, which is what wireless
9 carriers or carriers apply.

10 THE WITNESS: I don't recall whether that
11 percentage is -- whether that -- maybe counsel,
12 Mr. Carrathers, you can assist me whether that is
13 proprietary or not, that response. I don't want to --

14 MR. CARRATHERS: Yes, it is.

15 THE WITNESS: All right.

16 A. Well, there was certainly a, without
17 revealing the number, a not insubstantial fraction of
18 terminations carrying minutes that went to wireless
19 carriers for which there was no access charge,
20 underscoring the point that I have been making
21 throughout my testimony. And assuming that figure is
22 accurate, then I would probably agree that that should
23 be considered as well. The area where I would disagree
24 is with respect to the treatment of tandem switching,
25 which Verizon also introduced for the first time, and I

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1 view it as a methodological change.

2 BY MR. KOPTA:

3 Q. You also discussed with Mr. Carrathers your
4 use of the amount billed by Verizon New York to Verizon
5 Long Distance for billing and collection. Is there a
6 reason that you used New York figures instead of figures
7 that are more specific to Washington?

8 A. At the time that the testimony was being
9 prepared, we did not find the corresponding figure for
10 Verizon Northwest posted. Now I'm not going to sit here
11 today and tell you that it absolutely wasn't there, but
12 for whatever reason we didn't find it, and we used New
13 York.

14 During the break this morning, I asked my
15 office to see if the posting for Verizon Northwest was,
16 in fact, now available, and I was informed that it was,
17 and I was informed that the Verizon Northwest price for
18 billing and collection is roughly comparable to the
19 Verizon New York price so that our judgment to use New
20 York was (a) vindicated, and (b) by substituting Verizon
21 Northwest, we would not have materially changed the
22 result.

23 Q. And finally, you had a couple of different
24 discussions with Mr. Carrathers about whether one could
25 cure the price squeeze by increasing toll rates as

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1 opposed to reducing access. And I want you to assume
2 for purposes of this question that the Commission has
3 the authority in this proceeding to raise Verizon's toll
4 rates and, as you qualified, the toll rates of any
5 Verizon affiliate. In your view, is there a reason why
6 that is a course that the Commission should or should
7 not follow in remedying any price squeeze that it finds
8 as a result of this proceeding?

9 MR. CARRATHERS: Objection, Your Honor, I
10 believe Dr. Selwyn testified at great length as to why
11 he thinks while a price squeeze could be eliminated, the
12 Commission should reduce access, so I would object to
13 that question.

14 JUDGE SCHAEER: Mr. Kopta, you heard the
15 objection, what's your response?

16 MR. KOPTA: Well, Mr. Carrathers not once but
17 twice asked the same question in terms of whether or not
18 Dr. Selwyn was adhering to his testimony that it's one
19 possible way to cure a price squeeze is by increasing
20 toll rates. I don't believe that Dr. Selwyn directly
21 addressed why a reduction in access is preferable to a
22 reduction in toll except to opine to the chairwoman that
23 there may be some question in terms of whether the
24 Commission actually could raise all of the toll rates
25 that would need to be raised. So my question is simply

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1 to take out of that portion of the response any question
2 in terms of the Commission's authority, but simply to
3 ask Dr. Selwyn if all other things being equal, there
4 were two alternatives, raising toll rates or reducing
5 access, if there is a reason why reducing access is
6 preferable to increasing toll rates.

7 MR. CARRATHERS: Your Honor, just to respond,
8 not to belabor this point, but you will recall when I
9 asked Dr. Selwyn that question and he was going on in
10 his answer, I interrupted him and said, you know, to try
11 and shorten that up I'm going to allow him to go on and
12 give his full answer, and I hoped counsel for AT&T would
13 recognize that in redirect. And so you're asking him
14 the same question again. Again, I stand by my
15 objection.

16 JUDGE SCHAER: Well, the Bench believes that
17 this question is within the scope of cross and should be
18 allowed and perhaps might make the record clearer for
19 us.

20 So go ahead, Dr. Selwyn, do you have the
21 question in mind?

22 THE WITNESS: Yes.

23 JUDGE SCHAER: Okay, could you give us your
24 answer, please.

25 A. Reducing rates to costs that reflect the

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1 significant technological and economic gains that have
2 been achieved and reducing the costs of
3 telecommunications services generally is beneficial to
4 consumers. This is a discretionary service. A demand
5 for the service is sensitive to price. By charging an
6 artificially inflated price for retail long distance
7 services, consumers are discouraged from using the
8 service, they're encouraged to seek potentially less
9 efficient alternatives, and that for a variety of
10 economic and policy reasons it is appropriate that the
11 rate be reduced and that consumers be afforded the
12 benefit of that reduction.

13 Additionally, higher -- maintaining rates at
14 a higher level even if you were to eliminate -- even if
15 you could eliminate the price squeeze problem per se,
16 there's still an anticompetitive outcome, because what
17 -- not only are you suppressing consumer demand for the
18 services of the incumbent, but you're also suppressing
19 consumer demand for services of the competitors and
20 basically denying the competitors the opportunity to
21 compete on price where the vast majority of their cost
22 is being dictated by the incumbent with respect to the
23 central access services.

24 MR. KOPTA: Thank you, those are all my
25 questions.

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1 JUDGE SCHAER: Is there anything further for
2 Dr. Selwyn?

3 MR. KOPTA: I would note that I, this may be
4 a ministerial matter, but Mr. Carrathers has not yet
5 identified those cross-examination exhibits that he
6 wanted to move admission on, and I wanted to make sure
7 that since Dr. Selwyn specifically referred to Exhibit
8 56, which was designated by Verizon as a
9 cross-examination exhibit of Dr. Selwyn, which is one of
10 his responses to a data request, that that be moved into
11 the record.

12 JUDGE SCHAER: Mr. Carrathers, at this point
13 in the record, Exhibits 1 through 8 have been admitted.
14 Did you intend to offer any of the other responses?

15 MR. CARRATHERS: Actually, this relates to
16 our discussion earlier on the mini pre-hearing
17 conference on Friday. There are a number of exhibits
18 for Dr. Selwyn that we would seek to withdraw just to
19 clean up the record, we have no reason for offering
20 them, but there are a significant number that we want to
21 keep in and introduce into the record. My understanding
22 was that at the pre-hearing conference on Friday the
23 parties would simply, because they have reached an
24 agreement AT&T is not going to object to my introducing
25 any discovery requests that they have provided, just

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1 give you that list and then have it ready for you on
2 Friday and then just do the formal introducing of the
3 record there rather than reading through the exhibits
4 that would be included or excluded. I can do it either
5 way.

6 JUDGE SCHAER: My understanding had been that
7 you were going to offer the exhibits you wanted to offer
8 now and that there had been a stipulation made about
9 whether there needed to be identifying questions or
10 whether they would be admitted.

11 MR. CARRATHERS: Well, I can --

12 JUDGE SCHAER: I don't mind the process that
13 you have just outlined. It may be more efficient for
14 all of us. I do think it's appropriate for you to
15 consider whether you are going to offer Exhibit 56,
16 because I do believe there was extensive discussion on
17 the record for the information in there, and I did not
18 ask you to at the time with the other understanding in
19 my head.

20 MR. CARRATHERS: We will offer Exhibit 56.

21 JUDGE SCHAER: Okay. Any objection?

22 MR. KOPTA: No.

23 JUDGE SCHAER: Okay.

24 (Exhibit 56 admitted.)

25 MR. CARRATHERS: Your Honor, whatever you

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1 would like to do, what I can do is just literally read
2 to you, and there is about, oh gosh, maybe 18, 20
3 exhibits that we do not want included and we are
4 withdrawing. I can read those exhibit numbers to you
5 now, I can provide you a list Friday at the pre-hearing
6 and just introduce them there. Because again, I
7 understand AT&T has no objection. Whatever is more
8 efficient.

9 CHAIRWOMAN SHOWALTER: Let's say not now,
10 let's go to lunch, and maybe some of these things can be
11 taken up at 3:30.

12 JUDGE SCHAEER: Okay, so we thank you for your
13 testimony, Dr. Selwyn, you're excused.

14 At this point, we told the parties at the
15 break that we are going to take a short lunch and be
16 back at 1:15, and we are quite pleased at this point
17 with how our schedule is going. We need to break as it
18 turns out at 3:30 today, so I am going to ask the
19 parties when we get back together if anyone has been
20 able to shorten any of their time estimates and ask you
21 to think about that now that you see how things are
22 progressing.

23 So is there anything further that we need to
24 do this morning?

25 Then we will reconvene at 1:15, and we're off

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1 the record.

2 (Luncheon recess taken at 12:00 p.m.)

3

4 A F T E R N O O N S E S S I O N

5 (1:20 p.m.)

6

7 JUDGE SCHAER: Let's be back on the record
8 after our lunch recess. At this point, Chairwoman
9 Showalter has something she would like to address with
10 you.

11 CHAIRWOMAN SHOWALTER: Yes, it's regarding
12 the 10th Supplemental Order that was filed yesterday. I
13 was traveling, so I was unable to sign it, but I did
14 want to put on the record that I reviewed it and concur
15 with it.

16 JUDGE SCHAER: The next short procedural item
17 I would like to bring up is that we have discussed
18 having a pre-hearing conference on Friday morning where
19 we are not scheduled for hearing in order to deal with
20 some of the evidence issues and other housecleaning
21 issues that are facing us at this time. We will be
22 meeting all day Friday for the time we are in hearing in
23 Room 230 of the Commission's upstairs headquarters, and
24 I have scheduled a pre-hearing conference for us in
25 there at 10:00 Friday morning, and then the hearing with

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1 the Commissioners will resume from Thursday to Friday at
2 1:30 in that room.

3 So is there anything else that needs to be
4 considered before Staff calls its first witness?

5 Would you like to call your witness, please,
6 Ms. Smith.

7 MS. SMITH: Yes, thank you, Your Honor.

8 Staff calls witness Tim Zawislak.

9 JUDGE SCHAER: And, Mr. Zawislak, have you
10 previously taken the stand in this matter?

11 THE WITNESS: No, I have not.

12

13 Whereupon,

14 TIMOTHY W. ZAWISLAK,

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

17

18 JUDGE SCHAER: Your witness is sworn,
19 Ms. Smith.

20 MS. SMITH: Thank you, Your Honor.

21

22 D I R E C T E X A M I N A T I O N

23 BY MS. SMITH:

24 Q. Mr. Zawislak, could you please state your
25 name and give your business address for the record.

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1 A. Yes, my name is Timothy W. Zawislak, and my
2 business address is 1300 South Evergreen Park Drive
3 Southwest, Olympia, Washington 98504.

4 Q. Thank you, Mr. Zawislak. Did you prepare and
5 file testimony and exhibits in this matter?

6 A. Yes, I did.

7 Q. And have those been identified for the record
8 as Exhibit T-100, T-101C, 102C, 103, 104C, T-105,
9 T-106C, and Exhibits 107C through 113C and Exhibits 114
10 and 115?

11 A. Yes.

12 Q. And if I were to ask you the same questions
13 that were asked to you in that testimony, would your
14 answers be the same?

15 A. Yes, they would.

16 Q. Did you also prepare an errata sheet?

17 A. Yes, I did.

18 Q. And to your knowledge, has that been
19 distributed by your counsel to other counsel and the
20 Bench?

21 A. Yes, it has.

22 MS. SMITH: I move the admission of Exhibits
23 T-100 through 115.

24 JUDGE SCHAER: Is there any objection?

25 Those documents are admitted.

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1 I'm going to include the errata sheet as a
2 portion of Exhibit T-100, so that will not have its own
3 exhibit number but will be a portion of that exhibit.
4 Does that cause anyone any concerns?

5 And then I also note, Ms. Smith, that on
6 April 28 you distributed some replacement pages.

7 MS. SMITH: Yes, Your Honor, I believe I
8 distributed one replacement page for Mr. Zawislak's
9 direct testimony, and I would ask that that be included
10 in Exhibit T-100.

11 JUDGE SCHAER: Okay, is there any objection
12 to that?

13 Then that page will also be included in
14 Exhibit T-100.

15 MS. SMITH: And for the record, that's on
16 page 10.

17 JUDGE SCHAER: Thank you.

18 So those exhibits are admitted.

19 Did you have any further questions?

20 MS. SMITH: No, I don't, Your Honor, and
21 Mr. Zawislak is available for cross-examination.

22 JUDGE SCHAER: Does Verizon have
23 cross-examination?

24 MR. CARRATHERS: Yes, we do, thank you, Your
25 Honor.

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1 JUDGE SCHAER: All right.

2

3 C R O S S - E X A M I N A T I O N

4 BY MR. CARRATHERS:

5 Q. Good afternoon, Mr. Zawislak.

6 A. Good afternoon, Mr. Carrathers.

7 Q. Thank you. Let's begin, if we could please,
8 with your direct testimony, Exhibit T-100, and if you
9 could please turn to page 2.

10 A. (Complies.)

11 Q. In the middle of that page, you begin your
12 discussion of the interim terminating access charge or
13 ITAC, and to try and summarize your position,
14 Mr. Zawislak, I want to be sure I have it correct, I
15 believe you say two things. First you say that since
16 Verizon's current ITAC was established, Verizon has
17 received additional explicit federal USF support under
18 the FCC's CALLS order. And second, because of that
19 additional explicit federal support, Verizon's ITAC
20 should be reduced; is that correct?

21 A. That's correct, that's one of the items.
22 Other things have changed as well such as minutes of
23 use, the number of lines Verizon serves, excuse me, the
24 number of lines that Verizon serves in high cost and low
25 cost areas, and changes in the market generally.

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1 Q. And is the most significant factor the
2 federal support as a result of the FCC CALLS order; is
3 that fair to say?

4 A. The most significant factor causing the
5 reduction?

6 Q. Yes.

7 A. Yes.

8 Q. Thank you. Now --

9 CHAIRWOMAN SHOWALTER: Mr. Zawislak, you need
10 to speak up and speak into the microphone.

11 THE WITNESS: Okay.

12 JUDGE SCHAER: So why don't you pull it
13 towards you a little bit, please. It really does need
14 to be real close.

15 BY MR. CARRATHERS:

16 Q. Now, Mr. Zawislak, you're familiar generally
17 with the FCC's CALLS order?

18 A. Yes.

19 Q. And is it fair to say, Mr. Zawislak, that in
20 that order the FCC reduced the interstate access charges
21 of carriers, thereby as the FCC put it removing implicit
22 subsidies, and offset that with explicit federal support
23 such as putting more money in a USF fund or allowing
24 carriers to charge a higher subscriber line charge and
25 other mechanisms. Is that a fair summary of the order?

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1 A. I think so. It was a revenue neutral
2 approach.

3 Q. Thank you. So given that, you're not
4 claiming, are you, that Verizon Northwest received any
5 additional incremental revenues from the FCC as a result
6 of the CALLS order, correct?

7 A. Correct.

8 Q. Now let's turn to the operation of the ITAC
9 and the Commission's access charge rule. You're
10 familiar with the Commission's access charge rule,
11 correct?

12 A. Yes.

13 Q. And under that rule, Mr. Zawislak, when a
14 carrier's, any carrier's, terminating access charges are
15 reduced, that carrier has the ability, has the option to
16 raise its originating access charges on a revenue
17 neutral basis to make up for the revenues lost by the
18 terminating access reductions, correct?

19 A. I think you're referring to Subsection 6 of
20 the rule in WAC 480-120-540, and I would like to just
21 read it, the rule into the record, the subsection, if I
22 may.

23 Q. Thank you.

24 A. Sure. Subsection 6:

25 Any local exchange company that is

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1 required to lower its terminating access
2 rates to comply with the rule, excuse
3 me, with this rule may file, excuse me,
4 may file tariffs or price lists as
5 appropriate to increase or restructure
6 its originating access charges. The
7 Commission will approve the revision as
8 long as it is consistent with this rule,
9 in the public interest, and the net
10 effect is not an increase in revenues.

11 Q. Thank you. What I would like to do now is
12 discuss briefly with you the Commission's order adopting
13 that access charge rule. Again that's order number
14 R-450, and it is already marked as an attachment to
15 Dr. Blackmon's testimony, I believe Exhibit 131. I have
16 an extra copy if you don't have Dr. Blackmon's --

17 A. I do have a copy.

18 Q. Oh, you do, thank you. Now that order
19 explains the Commission's thinking in establishing the
20 access charge rule, the information it looked at and the
21 decision it reached, correct?

22 A. I think the adoption order adopts the rule,
23 and I believe it has to recapture the process that went
24 on in leading up to the rule.

25 Q. Could you please turn to page 3 of that

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1 order.

2 A. (Complies.)

3 Q. And there a little more than halfway down the
4 page there is the heading background information prior
5 to discussion of comments where the Commission describes
6 the history of access charges and what they do and what
7 they were intended to do, correct; do you see that?

8 A. Yes, I see that.

9 Q. Could you please now turn to page 4, and I
10 would like to read the second full paragraph.

11 A significant portion of the total cost
12 of operating the local telephone network
13 is recovered in access charges. Access
14 charges paid by interexchange carriers
15 and ultimately their customers account
16 for almost 20% of total retail revenues
17 in this state or about \$18 per customer
18 per month.

19 Is that a fair reading of the Commission's
20 discussion of access charges there on page 4?

21 A. Yeah, I think it speaks for itself.

22 Q. Thank you. And on that page and on the
23 following pages, the Commission went through all of the
24 interests of the various parties that have a stake in
25 access charge reform such as customers, incumbent LECs,

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1 resalers, and interexchange carriers, correct? And
2 again, the Commission discusses the current problems
3 with the --

4 MS. SMITH: I'm going to object at this
5 point. It seems as though this general order speaks for
6 itself, and I don't think we need to go through an
7 inventory of what it contains. If there's a question
8 pertaining to this general order that needs to be posed
9 to Mr. Zawislak, I would ask that we go to the question
10 section and sort of move over the itemization of what
11 the order says, because it does speak for itself.

12 JUDGE SCHAER: Mr. Carrathers.

13 MR. CARRATHERS: Yes, Your Honor.

14 JUDGE SCHAER: The objection is that the
15 order speaks for itself and you should not be asked to
16 -- reviewing what the order says at this point.

17 MR. CARRATHERS: Well, Your Honor, I'm
18 reviewing and I'm just about done with my review of the
19 principal points in the order just as foundation for the
20 questions I'm going to ask Mr. Zawislak on his testimony
21 where he claims that our access charges are not just and
22 reasonable.

23 JUDGE SCHAER: I think what I would like you
24 to do is go ahead with your questions, and if you need
25 to refer back at some point, you may do that if you need

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1 to indicate to the witness where something is. But we
2 are getting a lot of reading into the record of an order
3 that is in the public already, so please go ahead.

4 BY MR. CARRATHERS:

5 Q. Mr. Zawislak, in that order the Commission
6 did not require access charges to be set at long run
7 incremental cost, did it?

8 A. I would like to answer the question in this
9 way. I said before the order adopts the rule, and I
10 believe the rule is what, you know, is the legal
11 principal that applies.

12 Q. Okay. Well, let's do this, could you please
13 turn to your rebuttal testimony on page 2. That's
14 Exhibit T-105, correct?

15 A. The non-confidential is marked differently
16 than the confidential.

17 Q. Yes, I'm sorry, the non-confidential is
18 marked as T-105 if I have that right. Do I have the
19 right exhibit number; does that correspond with what you
20 have, Mr. Zawislak?

21 A. Yes.

22 Q. Okay. So again, please refer to your
23 rebuttal testimony, T-105. At page 2 at the very top of
24 the page, you state that Staff is concerned Verizon's
25 access charges are excessive and discriminatory,

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1 correct?

2 A. Yes.

3 Q. Now do you in your testimony explain why you
4 think they're excessive and discriminatory, or are you
5 merely summarizing Dr. Blackmon's analysis? I want to
6 be fair and know, you know, whether I should ask you
7 questions about this or wait.

8 A. Yes, and with regard to the ITAC I discuss
9 the reasons why the ITAC is currently excessive and
10 discriminatory, and I believe Dr. Blackmon discusses the
11 originating access charges.

12 Q. Okay. So your position is the ITAC is too
13 high for the reasons you have described, the additional
14 federal funding.

15 A. And the change in the number of minutes
16 terminated on for long distance network.

17 Q. Thank you. Setting that aside, are you,
18 Mr. Zawislak, also testifying that say Verizon's
19 originating access charges are excessive and
20 discriminatory?

21 A. I think with respect to that, I'm kind of
22 just recapping Staff's position overall.

23 Q. Well, I will ask you directly. Why, in your
24 opinion, why is Verizon's originating access charges
25 excessive and discriminatory?

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1 MS. SMITH: I'm going to object to that
2 question. Mr. Zawislak stated already in answer to a
3 question from Mr. Carrathers that he was simply
4 recapping the testimony of Dr. Blackmon. If Verizon has
5 questions with respect to the originating access, those
6 should be directed to Dr. Blackmon, not to Mr. Zawislak,
7 you're going beyond the scope.

8 MR. CARRATHERS: Well, based on that
9 representation, I will withdraw the question, and I will
10 focus the originating access questions to Dr. Blackmon,
11 thank you.

12 JUDGE SCHAER: Thank you, Mr. Carrathers.

13 And, Ms. Smith, if you can help us at any
14 other point in making it clear which witness is the
15 appropriate witness to answer questions, that would be
16 helpful as well.

17 MS. SMITH: Yes, Your Honor, and I do believe
18 the testimony does that nicely.

19 BY MR. CARRATHERS:

20 Q. Mr. Zawislak, now let's jump to your analysis
21 of Verizon's price floor and imputation test. If you
22 could please refer to your rebuttal testimony in I
23 believe the confidential pages 9 and 10, which I think
24 is marked Exhibit T-106C.

25 A. I have that before me.

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1 Q. Thank you. Now if we refer to page 9 of that
2 confidential exhibit, line 16. And this is a little
3 awkward because these numbers are confidential, but I
4 will try my best to try and be clear. On page 6, or I'm
5 sorry, page 9, line 6, you explain that the Verizon's
6 floor in this case is down from that figure, that first
7 figure which the Commission approved in Docket 970767 to
8 the next figure a little bit lower, correct?

9 A. At line 16?

10 Q. Line 16, I'm sorry, yes.

11 A. Yes.

12 Q. And as I understand your testimony,
13 Mr. Zawislak, you take issue with one of Verizon's
14 calculations of its price floor, specifically something
15 called the conversion factor, and so based on your
16 correction or your adjustment as you see it, you
17 calculate the price floor to be on the following page,
18 page 10, line 1, as you put it slightly higher, and so
19 your price floor calculation is the second figure on
20 that page 10, line 1; is that correct?

21 A. No. I can expand on that answer if you would
22 like. You stated the question that it was my price
23 floor calculation, and what I have done here is simply
24 adjusted Verizon's price floor calculation with the
25 assumption of that one change just to show the impact of

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1 the nature that such a change might have on the price
2 floor. In fact, in both my direct and my rebuttal
3 testimony I recommend that the Commission first look at
4 access charges and set access charges at the correct
5 level and then perform an imputation study once that's
6 done. I think it's very important to have the access
7 charges at the right level for all the reasons listed in
8 my testimony as well as, you know, the issues that other
9 parties have brought up in the case.

10 Q. Well, Mr. Zawislak, let me follow up then.
11 An issue in this case, you will agree, is whether
12 Verizon's current toll prices are above its current
13 imputation price floor, correct?

14 A. I think that's, you know, one of the issues.
15 There's several other issues. Probably first and
16 foremost is the issue of whether or not Verizon's access
17 charges are discriminatory and anticompetitive. But
18 beyond that, imputation is kind of a what I view as a
19 secondary issue after, you know, access charges are
20 addressed, especially in my testimony where I discuss
21 how the Commission should set the ITAC at this point in
22 time for the changes I already mentioned.

23 Q. So, Mr. Zawislak, you reviewed Verizon's
24 price floor calculation in this case. You made an
25 adjustment to it. As a result of your adjustment, we

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1 have the price floor shown on page 10, line 1. But it's
2 your testimony that that's not your proposed price floor
3 for Verizon; is that correct?

4 A. Right. I think what this does is it shows
5 the impact of such a change, and the Commission should
6 consider all of the other inputs into an imputation
7 study, including the recommendations that Dr. Selwyn has
8 made. I can't prejudge how the Commission will come out
9 on those issues, but I feel that those need to be flowed
10 through the imputation analysis in order to arrive at a
11 proper price floor.

12 Q. Well, Mr. Zawislak, in your testimony, did
13 you make adjustments to, for example, Verizon's long run
14 incremental billing and collection cost for calculating
15 the price floor?

16 A. No, I did not. For purposes of this impact
17 analysis I kept everything else constant, and I just
18 isolated the impact of the change in conversion factor
19 that Verizon proposed from the old case up until the new
20 imputation conversion factors that Mr. Dye of Verizon
21 has proposed in his direct testimony. So in this
22 rebuttal, I'm responding to Mr. Dye, his new imputation
23 study.

24 Q. Thank you. Let's then turn to your testimony
25 where you describe the Commission's price floor

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1 methodology that it had approved in other cases. And if
2 you could please turn to your confidential Exhibit 107C
3 I believe it is.

4 A. I have that.

5 Q. Now in 107C, that is your response to an AT&T
6 data request. Referring to your testimony, you say,
7 look, Verizon is pricing close to its imputation -- the
8 Commission's imputation floor. AT&T asked you to
9 explain it, and then in your response you give a
10 detailed explanation of when the Commission approved an
11 imputation floor, what it was. And at the very bottom
12 of that response on page 1 of 2, you say:

13 In fact, the effect of lowering the ITAC
14 to the Staff proposed level would
15 actually enable two rate plans that
16 would otherwise fail, and they name
17 those two plans, to narrowly pass the
18 imputation test.

19 Is it your testimony that the Commission
20 approved imputation floor in Docket 970598 is the
21 appropriate floor to use in this proceeding to determine
22 whether Verizon's current toll rates pass imputation?

23 A. It's the last approved imputation or price
24 floor, and when making the comparisons, that would be
25 the impact of that analysis. And I want to note also

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1 that on the bottom of page two of two of that exhibit,
2 the last sentence I think summarizes what I have
3 answered previously, that Staff recommends that the
4 Commission consider all the necessary adjustments,
5 including Staff's access charge adjustments, in this
6 case prior to establishing a new Commission approved
7 imputation floor on a going forward basis.

8 Q. Well, Mr. Zawislak, let me make sure I
9 understand. The issue in this case, one of them, is
10 whether Verizon's current toll rates pass imputation.
11 And what you have done is you said, well, let's reduce
12 access first, and then once we do that, we can calculate
13 a price floor to determine whether Verizon's toll rates
14 pass imputation; is that correct?

15 A. That's part of it. I think, you know, the
16 other updates that the Commission might entertain are
17 important too.

18 Q. Thank you. You discuss the previous dockets
19 where the Commission approved the price floor,
20 UT-970598, UT-970767, and there you explain that the
21 Commission set forth its approved price floor
22 methodology, correct?

23 A. Which exhibits were those again?

24 Q. Well, I was referring actually to two docket
25 numbers, UT-970598 and UT-970767, which you reference in

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1 Exhibit 107C.

2 A. So you're just asking me about the --

3 Q. Right, I'm just leading up. The Commission
4 approved a Verizon price floor in those dockets, and it
5 did so -- and at the -- strike that, let me rephrase.

6 Verizon or the Commission approved Verizon's
7 price floor in that docket based on Verizon's
8 methodology in calculating its price floor in that case,
9 correct?

10 A. Can you point me in the order where you're
11 referring to?

12 Q. I'm referring to your -- well, let's do it
13 this way. Your response 107C, Exhibit 107C, I
14 apologize, let's just look at the first sentence in the
15 response, the most recent Commission approved imputation
16 floor was set in, and you refer to the docket, correct?

17 A. Yes.

18 Q. And you then list that floor that was
19 approved, and that floor was set based upon an
20 imputation analysis then GTE provided to the Commission
21 in 1997, correct?

22 A. Yes, I believe that was a result of the Staff
23 working with GTE. I believe GTE filed a revised price
24 floor calculation in that docket. 970598 was a docket
25 that established the peak and off peak toll prices for

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1 GTE at the time, and I believe it was presented at a
2 public open meeting of the Commission. And, you know,
3 in the 30 day time period that the Staff has a chance to
4 review, the Staff worked with the company to come up
5 with the correct number at that point in time.

6 Q. Thank you. And in developing the price floor
7 in that docket which the Commission approved, did
8 Verizon use its long run incremental cost for billing
9 and collection?

10 A. Yes, I believe so. And in this case, I
11 believe Verizon has provided an update of its long run
12 incremental cost.

13 Q. Right.

14 A. I believe it has changed. And when I said
15 before that I recommend that, you know, the Commission
16 should entertain the adjustments sponsored by AT&T, I
17 mean also that the Commission should entertain any
18 changes sponsored by Verizon as well. I know the market
19 has changed. Dr. Selwyn this morning talked about the
20 wireless traffic and different changes, so I think
21 there's a lot of changes going on here, and it's
22 important to get each one right prior to setting the
23 price floor.

24 Q. Thank you, Mr. Zawislak. Again referring
25 back to the 97, or I'm sorry, to the price floor the

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1 Commission approved in 1997 for Verizon Northwest, was
2 that price floor based upon Verizon's long run
3 incremental cost of retailing and marketing expenses?

4 A. I believe so.

5 Q. Thank you.

6 A. And I would like to follow up on that. When
7 I recommend that the Commission entertain changes, what
8 I mean is that I would -- that is the precedent that has
9 been in effect for a few years now, but I believe that
10 parties can challenge a precedent in a new case like
11 this if there's new developments and should present the
12 evidence that's warranted, and that's what we have done
13 with respect to the ITAC.

14 Q. Thank you, Mr. Zawislak. So in 1997 the
15 Commission established a methodology, approved a Verizon
16 price floor, Verizon's price floor reflected Verizon's
17 LRIC of billing and collection and retail sales
18 marketing. And so my question is, today do you believe
19 that Verizon's price floor should be based on Verizon's
20 long run incremental cost of billing and collection and
21 marketing?

22 A. Based on current Commission precedent in
23 several cases, among which would be the GTE PTC case
24 back in I think it was a '92 docket number, UT-921462,
25 that would be true.

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1 Q. Thank you. And, Mr. Zawislak, do you know if
2 you go back to the toll price floor that the Commission
3 approved in that '97 case, deducted what Verizon's or
4 deducted Verizon's long run incremental cost for billing
5 and collection and retail and marketing and instead
6 inserted Dr. Selwyn's 4 1/2 cents per minute of use, if
7 you made that calculation, and I don't know if you have,
8 but if you have, would Verizon's toll plans at that time
9 have passed imputation?

10 A. I have not made that calculation.

11 Q. Thank you. Now since that '97 case where the
12 Commission formally approved the methodology and
13 Verizon's toll floor, Verizon has made subsequent
14 filings for changes in toll rates, correct?

15 A. Yes, and I would like to clarify that after
16 the price floor was established, Verizon's toll became
17 classified as competitive and was then subject to price
18 lists requirements rather than tariff requirements. And
19 so they basically automatically go into effect upon ten
20 days notice whether or not, you know, anything is done.

21 Q. So it's your testimony then that -- well,
22 strike that.

23 When Verizon filed changes to its toll plan
24 since '97 and provided its imputation analysis, did
25 Staff review that imputation analysis?

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1 A. I don't know, I did not work on those cases.

2 MR. CARRATHERS: Can you excuse me just for a
3 moment, please, Your Honor, could I have just a moment?

4 JUDGE SCHAER: Yes, go ahead.

5 MR. CARRATHERS: Thank you.

6 (Discussion off the record.)

7 MR. CARRATHERS: Thank you very much,
8 Mr. Zawislak, I apologize for the time I took to think
9 for a moment, but those are all the questions I have at
10 this time.

11 JUDGE SCHAER: Thank you.

12 Did AT&T have any questions for this witness?

13 MR. KOPTA: No, Your Honor, thank you.

14 JUDGE SCHAER: Okay.

15 Did WorldCom have questions?

16 MS. SINGER NELSON: No, thank you.

17 JUDGE SCHAER: Okay, Commissioners, did you
18 have questions for Mr. Zawislak?

19 CHAIRWOMAN SHOWALTER: I don't believe I do.

20 JUDGE SCHAER: Commissioner Oshie.

21 COMMISSIONER OSHIE: I don't believe that I
22 have any questions.

23 JUDGE SCHAER: Give us just a moment as well.

24 (Discussion on the Bench.)

25 JUDGE SCHAER: Thank you.

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1 Is there any redirect for this witness,
2 Ms. Smith?

3 MS. SMITH: Yes, Your Honor, thank you, just
4 briefly.

5

6 R E D I R E C T E X A M I N A T I O N

7 BY MS. SMITH:

8 Q. Mr. Zawislak, during cross-examination you
9 agreed with Mr. Carrathers that Verizon will get no
10 additional revenues as a result of the CALLS and the
11 interstate access support order. Will you please
12 explain why this did not lead you to recommend that the
13 ITAC stay at the current level?

14 A. Sure. I would like to point out too also
15 that I believe it was a revenue neutral plan at the
16 point implemented. What happened after that I can't
17 say.

18 MR. CARRATHERS: Your Honor, excuse me, I'm
19 going to object for a moment. How does that question --
20 I don't believe that that question relates to my
21 question of Mr. Zawislak. I just asked him, is one of
22 the factors the FCC CALLS order, he said yes. I said is
23 it revenue neutral, he said yes. And he explains in his
24 testimony why he thinks the ITAC should change even
25 though the CALLS order was revenue neutral. So again I

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1 apologize for the long winded objection, but I don't
2 think that Staff's question goes to a cross-exam
3 question.

4 JUDGE SCHAER: Ms. Smith.

5 MS. SMITH: I believe it goes directly to a
6 cross-examination question. Mr. Zawislak was asked on
7 cross-examination whether Verizon would get additional
8 revenues as a result of the CALLS order, and that
9 question was asked in a series of questions relating to
10 Staff's recommendation on the ITAC. I believe that this
11 is proper redirect examination with respect to that
12 cross-examination.

13 JUDGE SCHAER: Well, I am going to allow the
14 question, answer that's been given and the question and
15 following answer to go ahead, please. I believe this is
16 within -- this is within the scope of the questions
17 asked of Mr. Zawislak.

18 BY MS. SMITH:

19 Q. Mr. Zawislak, do you need me to repeat the
20 question, or do you have that in mind?

21 A. I have that in mind. What happened was the
22 FCC did implement a new universal service support
23 mechanism and began providing support to Verizon under
24 that plan. Verizon also was able to raise its
25 subscriber line charges over time. Those also were

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1 additional sources of revenue to Verizon. The offset to
2 the totalled amount of universal service support needed
3 in my opinion is necessary so that Verizon doesn't
4 overcollect or overrecover on its universal service
5 cost. Does that answer the question?

6 Q. Yes, it does, Mr. Zawislak, thank you.

7 A. Thank you.

8 MS. SMITH: I have no further redirect, thank
9 you, Your Honor.

10 JUDGE SCHAER: Okay.

11 Is there anything further for this witness?

12 If not, thank you for your testimony.

13 Let's take a very short five minute break to
14 allow Mr. Zawislak to leave the stand and Dr. Blackmon
15 to take the stand.

16 (Brief recess.)

17 JUDGE SCHAER: While we were off the record,
18 Staff's witness assumed the stand.

19 Would you like to call your witness,
20 Ms. Smith?

21 MS. SMITH: Thank you, Your Honor, Commission
22 Staff calls Dr. Glenn Blackmon.

23 JUDGE SCHAER: Dr. Blackmon, I believe you
24 have previously been sworn in this proceeding; is that
25 correct?

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1 THE WITNESS: That's correct.

2 JUDGE SCHAER: I will remind you then that
3 you are still under oath.

4 THE WITNESS: Thank you.

5 JUDGE SCHAER: Go ahead, Ms. Smith.

6 MS. SMITH: Thank you, Your Honor.

7

8 Whereupon,

9 GLENN BLACKMON,

10 having been previously duly sworn, was called as a
11 witness herein and was examined and testified as
12 follows:

13

14 D I R E C T E X A M I N A T I O N

15 BY MS. SMITH:

16 Q. Dr. Blackmon, will you state your name and
17 give your business address for the record, please.

18 A. My name is Glenn Blackmon, Ph.D. My business
19 address is 1300 South Evergreen Park Drive Southwest,
20 Olympia, Washington.

21 Q. Dr. Blackmon, did you file exhibits and
22 testimony in this proceeding?

23 A. Yes.

24 Q. Did you file Exhibit T-130, which is your
25 direct testimony, and two revised pages reflecting an

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1 order striking testimony?

2 A. Yes.

3 Q. And did you file Exhibit 131 and Exhibit
4 T-132?

5 A. Yes.

6 Q. If I were to ask you the same questions today
7 that are asked in the testimony as pre-filed, would your
8 answers be the same?

9 A. For the most part, yes. I think in Exhibit
10 T-130 at page 9, line 20, where I discuss a rule that I
11 said was overturned on appeal, if you ask me that today
12 I would say that it has since been reinstated by the
13 state supreme court.

14 Q. Thank you, Dr. Blackmon. Do you have any
15 changes to make to your testimony today?

16 A. Yes, I do in Exhibit T-132.

17 Q. And is that your rebuttal testimony?

18 A. Yes, it is. Starting at page 11, line 4, as
19 I understand the Commission's order striking certain
20 testimony, that included a portion of my direct
21 testimony. The section that begins on page 11 of my
22 rebuttal testimony is on the same subject and is
23 responding to the criticisms of Verizon, their criticism
24 of my direct testimony which has since been struck, and
25 so I believe that that testimony, which continues

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1 through until page 16, line 14, has no place in the case
2 anymore given the Commission's decision to strike the
3 other testimony, and so I would think that it should be
4 withdrawn.

5 Q. Thank you, Dr. Blackmon. Could you please
6 give a beginning page and line and an ending page and
7 line for the testimony that you believe should be
8 withdrawn?

9 A. Page 11, line 4 is the beginning. Page 16,
10 line 14 is the end.

11 MS. SMITH: Commission staff moves to
12 withdraw the testimony, rebuttal testimony of
13 Dr. Blackmon beginning at page 11, line 4 and ending at
14 page 16, line 14.

15 JUDGE SCHAER: Is there any objection?

16 Hearing none, that testimony, which has not
17 been admitted yet, will be withdrawn from the document
18 identified at this point.

19 MS. SMITH: Thank you, Your Honor.

20 BY MS. SMITH:

21 Q. Dr. Blackmon, do you have any further changes
22 to your direct or rebuttal testimony?

23 A. No.

24 MS. SMITH: With that, Your Honor,
25 Dr. Blackmon is available for cross-examination.

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1 JUDGE SCHAER: Excuse me, counsel, if you
2 have already dealt with this --

3 MS. SMITH: Oh, I'm sorry, could we move to
4 admit --

5 JUDGE SCHAER: Actually, I'm not quite to
6 that one yet.

7 MS. SMITH: Oh.

8 JUDGE SCHAER: I have in front of me two
9 replacement pages to Exhibit T-130.

10 MS. SMITH: Yes, those should be 8 and 9. I
11 would like to have those, pages 8 and 9?

12 JUDGE SCHAER: Yes.

13 MS. SMITH: I would like to have those
14 included in Exhibit T-130.

15 JUDGE SCHAER: Okay, that's what I wanted to
16 know.

17 MS. SMITH: And I move for the admission of
18 Exhibits T-130, T-132, and 131 in the record, please.

19 JUDGE SCHAER: Is there any objection?

20 Those documents are admitted.

21 MS. SMITH: Now Dr. Blackmon is available for
22 cross-examination.

23 JUDGE SCHAER: And did Verizon have questions
24 of Dr. Blackmon?

25 MR. CARRATHERS: Thank you, Your Honor, yes,

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1 we do.

2 JUDGE SCHAER: Go ahead.

3

4 C R O S S - E X A M I N A T I O N

5 BY MR. CARRATHERS:

6 Q. Good afternoon, Dr. Blackmon.

7 A. Good afternoon.

8 Q. Let's start with your direct testimony, if
9 you could please turn to page 3, that's Exhibit T-130,
10 page 3, line 4, you conclude that Verizon's access
11 charges are not fair, just, and reasonable. And to try
12 and summarize, you give three reasons. Number one,
13 they're higher than long run incremental cost; number
14 two, they're higher than Qwest's rates; and number
15 three, they're higher than Verizon's interstate rates.
16 Is that a fair summary of your position?

17 A. Those are not three reasons, those are three
18 standards by which one could conclude that Verizon's
19 access charges are too high.

20 Q. Thank you. Now, Dr. Blackmon, you
21 participated in the 1998 GTE/Bell Atlantic merger
22 docket, correct?

23 A. Yes.

24 Q. And for the record, that is Docket Number
25 UT-981367. In that docket, the parties reached a

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1 settlement that this Commission approved, correct?

2 A. Yes.

3 Q. And that settlement reduced Verizon's access
4 charges by a total of I believe about \$7 Million per
5 year, correct?

6 A. I don't have that number in mind. I do know
7 that access charges were reduced.

8 Q. And are you aware that Verizon filed
9 compliance tariffs with the Commission that reflected
10 the merger order and those access reductions?

11 A. Yes.

12 Q. And were those tariffs accepted?

13 A. I assume so. I don't know that based on my
14 own personal knowledge.

15 Q. Thank you. The access charges that resulted
16 from the merger settlement were above long run
17 incremental cost; is that a fair statement?

18 A. Yes.

19 Q. The access charges that were adopted as a
20 result of the merger order were also above Qwest's
21 intrastate access charges; is that true?

22 A. Yes.

23 Q. And the Commission though expressly concluded
24 that those charges were fair, just, reasonable, and not
25 unduly preferential or discriminatory; isn't that true?

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1 A. I haven't read that order recently.

2 Q. The merger order was issued after the
3 Commission established its access charge rule; is that
4 correct?

5 A. Yes.

6 Q. And do you recall were you here when I cross
7 examined Mr. Zawislak?

8 A. Yes.

9 Q. And in cross examining Mr. Zawislak, I
10 referenced an earlier Commission statement that access
11 charges help a company recover a portion of its total
12 operating costs. Do you disagree with that proposition?

13 A. No, I don't.

14 Q. Now let's turn to the comparison of
15 intrastate access charges with interstate access
16 charges. And again, you were here when I cross examined
17 Mr. Zawislak on the effect of the CALLS order?

18 A. Yes.

19 Q. And he explained that in general the purpose
20 of the order was to reduce interstate access charges and
21 offset those reductions on a revenue neutral basis with
22 other explicit support. Do you recall him saying that?

23 A. I don't remember him using those terms, no.

24 Q. Well, do you disagree with his
25 characterization of what CALLS did?

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1 A. No.

2 Q. Do you agree that the FCC's CALLS order
3 reduced interstate access charges?

4 A. I agree that it reduced switched access
5 charges paid by carriers, yes.

6 Q. And is it therefore reasonable to conclude
7 that one of the reasons why intrastate access charges
8 are higher than interstate access charges is because of
9 the FCC's CALLS order?

10 MS. SMITH: I would object to that question.
11 I think that's asking the witness to speculate on an
12 effect of an FCC order, and I don't believe that's
13 appropriate for cross-examination.

14 JUDGE SCHAEER: Mr. Carrathers, your response.

15 MR. CARRATHERS: Well, Mr. Zawislak
16 referenced the CALLS order, and he discussed it as part
17 of my cross-examination, so I was merely following up
18 with Dr. Blackmon to see whether he agreed that the
19 CALLS order caused interstate access charges to decline.
20 Because as he states in his testimony, he says
21 interstate access charges are much lower than
22 intrastate, and according to Dr. Blackmon, he said
23 that's a factor one should consider in looking at
24 Verizon's intrastate charges, so I'm merely asking him
25 about why the interstate access charges are lower.

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1 MS. SMITH: Then perhaps if you were to just
2 ask why the interstate access charges were lower, I
3 don't believe I would object to that question. It was
4 the form of the question earlier that I objected to.

5 JUDGE SCHAEER: Are you satisfied going ahead
6 with that question, Mr. Carrathers?

7 MR. CARRATHERS: I will move on, Your Honor.

8 JUDGE SCHAEER: I think that the question as
9 you restated it is appropriate. I have some concerns
10 about the earlier question. If you want to ask that
11 question, go ahead.

12 MR. CARRATHERS: I will move on, Your Honor,
13 thank you very much.

14 BY MR. CARRATHERS:

15 Q. Dr. Blackmon, do you know of any other
16 carriers in Washington whose access charges are above
17 long run incremental cost?

18 A. Any other than Verizon Northwest?

19 Q. Correct.

20 A. I do. In fact, I don't know of any carrier
21 whose access charges are not above long run incremental
22 cost.

23 Q. Thank you. Changing gears for a moment, if
24 you could please refer to your direct testimony, which
25 is again T-130, at page 6, starting at around line 7,

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1 Dr. Blackmon, you explain -- strike that.

2 Dr. Blackmon, do you know whether AT&T is
3 providing toll services at a loss in Washington state?

4 A. No.

5 Q. Do you know whether AT&T has said it would
6 leave the market in Washington state because of
7 Verizon's access rates?

8 A. No.

9 Q. And finally, Dr. Blackmon, is Verizon seeking
10 to increase its revenue requirement in this proceeding?

11 A. Not that I know of, no.

12 MR. CARRATHERS: Thank you.

13 May I have just a moment, please?

14 JUDGE SCHAEER: Go ahead.

15 BY MR. CARRATHERS:

16 Q. One last question or set of questions,
17 Dr. Blackmon, thank you for indulging my time. When
18 Verizon Northwest files revised prices for its toll
19 services, you agree that it includes in that filing an
20 imputation analysis; would you agree?

21 A. I don't know as a fact whether Verizon does
22 that with each filing or not. I know that they are
23 required by law to charge rates that cover costs,
24 including imputed access charges. But as to whether
25 each filing includes that analysis or not, I couldn't

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1 say one way or the other.

2 Q. Well, are you aware that Commission Staff has
3 a specific obligation to review Verizon's price list
4 changes to ensure that the prices cover costs consistent
5 with the Commission's imputation test?

6 A. I'm sorry, could you cite me to that specific
7 obligation?

8 Q. Yes, it is in Docket UT-970767. That is the
9 first supplemental order granting competitive service
10 classification with conditions. Again, page 13, the
11 first full paragraph, last two sentences, where it
12 approved, the Commission approved the changes in the
13 quote:

14 Thereafter, any rate changes must
15 continue to meet the imputation analysis
16 here adopted. Commission Staff must
17 review price list changes to ensure that
18 GTE's prices cover costs consistent with
19 that imputation test.

20 A. I don't have a copy of that order, sorry.

21 MR. CARRATHERS: Thank you, those are all the
22 questions I have, Your Honor.

23 JUDGE SCHAEER: Did AT&T have questions for
24 Dr. Blackmon?

25 MR. KOPTA: No, thank you, Your Honor.

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1 JUDGE SCHAER: WorldCom?

2 MS. SINGER NELSON: No, thank you, Judge.

3 JUDGE SCHAER: Commissioners, do you have
4 questions?

5

6 E X A M I N A T I O N

7 BY COMMISSIONER HEMSTAD:

8 Q. Dr. Blackmon, I would like to explore and
9 understand the difference in your position and that of
10 Dr. Selwyn. As I understand it, his recommended or
11 preferred solution is that access charges be reduced to
12 cost, and I take it your position is that they be
13 reduced to the same as Qwest's access charges. Is that
14 a fair statement?

15 A. Yes, it is.

16 Q. Do you then disagree with Dr. Selwyn's
17 analysis, or why do you come to a different conclusion
18 as to the appropriate recommendation?

19 A. Well, AT&T has been a very consistent
20 longstanding advocate for their right to buy access
21 charges at long run incremental cost. As far as I know,
22 every customer of every business would like to have
23 that. And I think the reason we disagree is that Staff
24 recognizes that like other businesses, telephone
25 companies need to be able to cover all their costs, not

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1 just their long run incremental costs. We believe it's
2 appropriate that some of the costs that are very real
3 but not included in incremental cost, most notably the
4 cost of the loop, be recovered under all services,
5 including the access services. And so because of that,
6 we do not recommend pricing at long run incremental
7 cost.

8 Q. And what is your sense of the competitive
9 impact of wireless as it cuts across this area?

10 A. It's my impression that wireless service is
11 having a competitive effect on long distance providers.
12 In fact, it may very well be a more significant
13 competitive force now than the traditional competition
14 among long distance companies, which in my view is that
15 type of competition has grown rather stagnant in the
16 last few years. So I believe that the wireless
17 alternative for long distance service is very
18 significant in the competition in that market.

19 Q. And how does that affect or does that
20 influence your view as to how access charges should be
21 priced?

22 A. Well, I think that it does not excuse the
23 long distance companies from their obligation to
24 contribute to the cost of the wireline telephone
25 network. They are using that network to provide

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1 service. The wireless companies have their own costs to
2 recover in their own prices, and it would not be
3 appropriate in Staff's view to shift that competitive
4 balance between wireline and wireless by allowing the
5 wireline long distance company to get its access at such
6 a low price as long run incremental cost.

7 Q. Is your basic argument as to how this matter
8 should be dealt with in your view consistent with our
9 access charge rule?

10 A. In my testimony I discussed the relationship
11 to the access charge rule. I don't think that one would
12 simply read that rule or the adoption order and say, oh,
13 yeah, that's what this Commission needs to do. You
14 know, the -- we did not have the foresight in 1997 and
15 1998 to realize that in 2003 this was the next step. So
16 I don't want to say that it's dictated by the rule, but
17 it's consistent with it in the sense that it is in no
18 way precluded by the rule. There's nothing in our
19 recommendation that would violate that rule. That rule
20 is largely one that provides limits on, you know, that
21 the terminating rate can't be more than a certain level,
22 the companies can shift certain costs to the originating
23 side, but then it says absolutely nothing about whether
24 the originating rate at any particular level is fair or
25 unfair.

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1 Q. Do you think that rule needs to be revisited?

2 A. Not that I know of, no.

3 COMMISSIONER HEMSTAD: That's all I have,
4 thank you.

5

6 E X A M I N A T I O N

7 BY CHAIRWOMAN SHOWALTER:

8 Q. Dr. Blackmon, you compared the advisability
9 of charging LRIC with the advisability of charging the
10 same as Qwest's access charges. What about making a
11 similar comparison between charging the same as Qwest
12 access charges versus charging the same as Verizon's
13 interstate access charges?

14 A. In general, if the -- I think the reason why
15 we did not recommend using the interstate rate as the
16 standard is that both the interstate and intrastate
17 rates are regulated. If the interstate were an
18 unregulated rate, then I think that the claim of
19 discrimination would have more weight, that we have
20 exactly the same service being provided to two different
21 customers at two different prices, one being the service
22 of connecting an in-state call, the other being the
23 service of connecting an interstate call. I mean
24 generally if you saw that sort of pricing disparity,
25 that would raise concerns about discrimination.

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1 But the fact that those are part of a
2 comprehensive regulation scheme at the federal level and
3 then a separate one at the state level means that we
4 would give less weight to that comparison. We think
5 it's very useful in terms of judging the appropriate
6 level. We very frequently get questions and complaints
7 about why in-state toll rates are so high compared to
8 interstate, and we think that that's another important
9 reason for lowering the intrastate rate. But ultimately
10 we believe that if you take the smaller step of setting
11 the Verizon rates at Qwest's level, that that is
12 sufficient to eliminate the undue discrimination that
13 exists today.

14 Q. And I think Verizon takes you to task for
15 trying to make a comparison of Qwest's costs with
16 Verizon's costs, so why should the rates be the same.
17 And I want to understand from you, is that relevant, or
18 are you using Qwest's charges as some kind of a ceiling
19 beneath which you would think the true costs lie?

20 A. My understanding is that where Verizon takes
21 me to task on the comparison of Qwest costs has to do
22 more with what we would recall the revenue requirement
23 issues, whether Verizon's overall level of revenues, not
24 just from access but from everything, justifies their
25 revenue neutrality proposal. And so we go back and

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1 forth in our testimony about whether that sort of
2 benchmark assessment, you know, macro level comparisons
3 of cost are appropriate or not.

4 If we're talking specifically about access
5 charges, I don't think there's any conflict there at
6 all. The only rates that are based on cost for Qwest
7 are the terminating access rate and the universal
8 service charge that's also applied on the terminating
9 level. We are not recommending that the Qwest rates for
10 those two rate elements be applied to Verizon. We're
11 recommending that Verizon specific costs, which
12 generally are higher, be applied to Verizon for those
13 two rate elements.

14 Q. There are a few places in I think Dr. Fulp's
15 testimony that he's criticizing you, and I would just
16 like to get your reaction. I think you may have just
17 answered it in general, but I want to make sure. At one
18 point he says that you are confusing hypothetical cost
19 study results with the company's actual costs and
20 revenue requirements and that your claim is based on the
21 assumption that a company's revenue requirement equals
22 the sum of the costs produced by the FCC's cost model,
23 and he says there's never been any finding to that
24 effect. What is your response to that criticism of your
25 testimony?

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1 charges must include some loop cost. If
2 Dr. Selwyn is correct, then access
3 charges are just one component of basic
4 service and generate contribution for
5 this service.

6 And then he says:

7 Under either position, the price of
8 access should include something more
9 than just long run increments of cost.
10 Which I think you agreed with.

11 A. Yes.

12 Q. And then he says:

13 This is a critical point, because
14 Dr. Blackmon and Dr. Selwyn's arguments
15 indicate that access charges should not
16 be reduced or at the very least they
17 should be significantly higher than
18 LRIC.

19 And I put a question mark there because I
20 thought you were saying they should be reduced but just
21 something above LRIC.

22 A. There is a very large distance that one can
23 go and still leave Verizon's access charges above long
24 run incremental cost. We are by no means eliminating
25 the contribution to common costs, including the loop

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1 that access charges provide.

2 CHAIRWOMAN SHOWALTER: I think that's all the
3 questions I have, thank you.

4

5 E X A M I N A T I O N

6 BY COMMISSIONER OSHIE:

7 Q. Dr. Blackmon, perhaps you can comment on
8 Dr. Selwyn's belief as stated in his testimony that the,
9 as I understand it, that the costs imputed to Verizon
10 Long Distance for billing and collection are
11 artificially low because they essentially piggyback on
12 the services that are provided by Verizon, the LEC. Do
13 you believe that that's true, or is that a concern for
14 Staff?

15 A. It would be a concern for us in terms of the
16 affiliated interest review that we would do,
17 particularly if we find ourselves in a general rate case
18 for Verizon. The payments that the regulated company
19 Verizon Northwest makes or receives from affiliates like
20 Verizon Long Distance ought to be given a very good
21 review in that context. And in general, we would be
22 looking for whether Verizon Long Distance pays the
23 greater of costs on market when it buys services from
24 the regulated company.

25 The traditional approach that this Commission

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1 has taken is that, and it's really an approach that has
2 in the past had more application when the regulated
3 company is buying services from an affiliate, that when
4 they do that, they should never pay more than the market
5 price for that service say if it's a computer system or
6 office supplies or something like that. But if there
7 are economies to having an affiliate do it so that
8 there's a lower cost, they should buy it at the lower
9 cost rather than the market price. Conversely, if
10 you're selling a service to an affiliate like Verizon
11 Long Distance, then you should sell it at the market
12 price unless it actually costs Verizon Northwest more to
13 provide that service, and then it should be fully
14 reimbursed by its affiliate.

15 Q. So it wouldn't be your belief that at least
16 in this kind of context of calculating access charges
17 that is a factor that the Commission should be
18 concerned?

19 A. The only place it would be a factor, I
20 believe, is in calculating the price floor, whether it's
21 appropriate to impute for Verizon Northwest a market
22 price for something like billing and collection or
23 customer service functions rather than its actual costs.
24 And I have not really analyzed that question myself,
25 sorry.

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1 Q. Would your answer generally be the same for I
2 believe it's referred to as sales, advertising and
3 marketing cost?

4 A. Yes.

5 Q. Just as a matter of clarification, I believe
6 that you referred to loop costs and their inclusion in
7 access charges, and I guess access charges is used
8 generically, but were you referring specifically to
9 originating access or terminating or both?

10 A. It's in both. The high cost loops in -- the
11 cost of the loops that are used to serve customers in
12 high cost locations are recovered at least in part
13 through the universal service rate element that's on the
14 terminating service. Apart from that, just the ordinary
15 loops, there's no specific recovery of those in access
16 charges. It's not a line item or anything like that.
17 It's just one of many common costs of the firm that are
18 recovered across all the rates of the company, including
19 access charges, and that would occur on the originating
20 side.

21 COMMISSIONER OSHIE: Okay, thank you, I don't
22 have any other questions.

23 JUDGE SCHAEER: It looks like Mr. Carrathers
24 has some questions. I think I will let Mr. Kopta go
25 first and then you and Staff, so you can hear what he

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1 has to say.

2 Go ahead, Mr. Kopta.

3 MR. KOPTA: Thank you, Your Honor.

4

5 C R O S S - E X A M I N A T I O N

6 BY MR. KOPTA:

7 Q. Good afternoon, Dr. Blackmon. I just wanted
8 to follow up on a conversation that you had with
9 Commissioner Hemstad about the difference between
10 wireless carriers and wireline IXCs. Did I hear
11 correctly that it's your view that the wireline IXCs
12 make use of the landline network, and therefore it's
13 appropriate for them to pay some additional costs for
14 that, whereas wireless carriers do not?

15 A. I don't know that I said that last part about
16 that wireless carriers do not, but I did say that
17 wireline long distance companies use the network,
18 including the loops, in their role. When say a
19 residential customer of AT&T makes a call, the local
20 phone company that originates that service uses its loop
21 facilities in the completion of that call on behalf of
22 the long distance carrier, and so therefore it seems to
23 me that those loop costs should in part be collected
24 from the long distance company.

25 Q. Doesn't the wireless carrier generate the

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1 same costs as the wireline in that circumstance? If a
2 Verizon subscriber calls a wireless number within the
3 MTA that would ordinarily be a toll call for a wireline
4 call, isn't the portion that Verizon carries, including
5 the loop, also a cost that's incurred in that
6 transaction just as it would if AT&T were carrying it as
7 a wireline IXC?

8 A. In this example, are you asking -- are you --
9 is it for the -- there's a wireless customer originating
10 the call?

11 Q. No, it's a landline customer originating the
12 call.

13 A. Well, and they're calling a wireless
14 customer?

15 Q. Yes.

16 A. Well, they will be using a long distance
17 company like AT&T to do that, and they will be -- I mean
18 even if you're calling a wireless subscriber, if that
19 call is rated as a long distance call, then long
20 distance charges will apply to the wireline customer.

21 Q. That's true, but if you have a phone number
22 that's rated to that same area but say, for instance, my
23 cell phone is a 206 and it's rated in Seattle, and yet
24 I'm down here and somebody calls me at my 206 number,
25 they're not going to pay toll charges, are they?

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1 A. No, they won't, but they also won't use the
2 wireline network to reach you. That call -- the
3 wireless company will take responsibility for your call
4 somewhere in Seattle, and through either wireline
5 facilities that they pay for sort of at the wholesale
6 level or by using their towers and radio links, they
7 will deliver that call to you here in Olympia.

8 Q. And if I were getting the call on a landline
9 phone, isn't it the same thing, wouldn't that happen,
10 that the call would be delivered from the Verizon
11 subscriber to the AT&T POP, and then from AT&T would
12 carry it on its landline network down here to Olympia?
13 So I guess the question is, in both those situations,
14 are not the wireline and the wireless carrier making the
15 same use of the incumbent LEC's network?

16 A. I think in both those examples the use of the
17 loop on the terminating leg of the call is what's common
18 there, and under our access charge reform rule, on the
19 terminating leg there are no loop costs included except
20 for the instance of high cost locations. So in general,
21 the Commission has said that while access charges ought
22 to recover some loop costs, that should only be done on
23 the originating side. And so on the originating side,
24 the wireless carriers will not pay any of those called,
25 any of those loop costs, because they originate the call

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1 on their own network, not on the wireline network.

2 Q. Well, I guess I'm just trying to understand
3 the distinction between how a carrier, whether it's
4 wireless or wireline, makes a different use of the
5 incumbent's network when it's the incumbent's customer
6 that's calling a number that's either subscribed to a
7 wireless carrier or to a carrier that's somewhere within
8 the LATA but outside the local calling area. And it
9 seems to me that in both circumstances the call is going
10 to go from the subscriber's premises to the serving
11 central office, perhaps even up to the tandem, and then
12 handed off either to the wireless carrier or to AT&T as
13 a landline long distance company and transported to
14 wherever it's supposed to go. But in both those
15 scenarios, you're still talking about the same piece or
16 pieces of the incumbent's network. Do you disagree with
17 that?

18 A. I'm not going to say that I don't disagree
19 with that given the length of it, but what I would agree
20 with is that on the originating side if you have a
21 wireline customer, that regardless of whether they call
22 another wireline customer or wireless customer, under
23 this Commission's access charge rule, that call will
24 have the same compensation to the local wireline company
25 that is serving that originating customer. Either way

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1 they will get long distance, they will get access
2 charges on the originating side of the call.

3 Now on the terminating side where it's a
4 wireline customer who is receiving the call, the
5 compensation is different depending on whether that call
6 came from a wireless subscriber or another wireline
7 subscriber. It's different, there are different
8 originating carriers there. One of them has, you know,
9 sort of an integrated long distance service within its
10 offering. The other one does not. They have different
11 costs, different technologies.

12 But on the originating side, the side where
13 the loops are recovered, I think that we treat wireline
14 and wireless comparably with the difference -- the
15 exception to that being that the universal service
16 amounts that are recovered on the terminating side,
17 there is a difference there, and the wireless customers
18 or the wireless carriers don't pay some charges that the
19 wireline ones do have to pay.

20 Q. And those charges, the ITAC as we have been
21 discussing the acronym, are those designed to recover
22 the additional costs of loops and other facilities in
23 high cost areas?

24 A. The excess costs of loops and all other
25 facilities in the high cost areas, so it covers the part

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1 -- it's over and above what a more normal customer's
2 costs would be.

3 Q. And let me pose the question as a
4 hypothetical. Assume for a moment that the FCC no
5 longer has jurisdiction over wireless calls and that
6 wireless companies are treated exactly the same as
7 interexchange carriers when they carry calls between
8 incumbent local exchange carriers' local calling areas.
9 Do you have that assumption in mind?

10 A. About wireless carriers?

11 Q. Yes.

12 A. Okay.

13 Q. Under that scenario, all other things being
14 equal, would you believe it would be appropriate to
15 charge the wireless carriers the ITAC as well as the
16 wireline carriers the ITAC if they were carrying the
17 call between the same two points?

18 A. That would not be the ideal result, but in a
19 world of second best and even lower, it would be an
20 improvement to have the terminating rates be the same,
21 have the universal service rate element be applied to
22 all terminating minutes without regard to where or who
23 originated them.

24 Q. I can't resist, and even though it's
25 dangerous I'm going to ask, what do you think would be

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1 the best result in those circumstances?

2 A. The best thing would be for it no longer to
3 cost so much in rural areas to provide telephone
4 service.

5 MR. KOPTA: I can't argue with that, thank
6 you.

7 JUDGE SCHAER: Mr. Carrathers, did you have
8 anything further?

9 MR. CARRATHERS: Yes, just very briefly.

10

11 R E C R O S S - E X A M I N A T I O N

12 BY MR. CARRATHERS:

13 Q. Dr. Blackmon, Commissioner Hemstad was asking
14 you whether it's time to revisit the access charge rule,
15 and I think you said, no, not necessarily. Just to
16 clarify, is it your position that a carrier's access
17 charges can fully comply with the access charge rule but
18 yet still be unjust and unreasonable?

19 A. Yes.

20 Q. Finally, Commissioner Oshie asked you a
21 question about the recovery of loop costs, and you
22 explained that the ITAC recovers some loop costs, and
23 that originating access also recovered loop cost,
24 although there was no specific line item, correct?

25 A. Yes.

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1 Q. If originating access charges were reduced
2 without any offsetting increase in other rates, it would
3 follow, wouldn't it, that the company would not be able
4 to recover all of its costs, including its loop costs?

5 A. No, it would not follow from that. As I
6 said, many costs are -- I think what I should say is
7 many expenses are recovered in the originating access
8 charge, one of which would be an expense related to
9 loops. But then to say that somehow that rate element
10 goes down, that loops are no longer provided for I think
11 is inaccurate. They could be recovered in what's left.
12 There is no specific allocation of costs from two
13 specific rate elements, and so you can't say that if you
14 reduce some particular rate element that some particular
15 cost is no longer recovered.

16 Q. Well, thank you. Let me clarify then, that
17 was helpful. So originating access recovers some loop
18 costs, some expenses, it's all mixed up. Is it fair to
19 say then that if originating access charges were reduced
20 without offsetting increases in other rates, revenue
21 neutral increases in other rates, that the company would
22 not be able to recover whether it's loop costs or all
23 expenses that it formerly recovered through the
24 originating access charges?

25 A. No, not necessarily. It may just be that its

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1 earnings that previously were too high are no longer too
2 high or at least not as much too high as they were
3 before.

4 Q. So if a company were overearning, then, for
5 example, you could lower originating access and the
6 company could still recover its operating cost; is that
7 your testimony?

8 A. Well, I think that the reasonableness of the
9 access charges can be determined independently of the
10 earnings of the company. And so your question presumes
11 some simultaneous knowledge about the earnings level of
12 the company and the access levels. If you had that,
13 then you could make that determination, but you don't
14 necessarily have to have that.

15 Q. I'm sorry, let me -- I'm a little confused.
16 If the originating access charges help recover loop
17 costs and other expenses, you're saying that you can
18 look at those access charges and reduce them without
19 considering the effect it has on the ability of the
20 company to recover those other expenses and loop costs?

21 A. That's correct. There are two possible
22 situations here. One is that Verizon is earning at or
23 above its authorized rate of return. The other is that
24 it's not. Under either of those circumstances, Staff
25 believes that Verizon's access charges are excessive and

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1 unfair and unreasonable, so the earnings level we think
2 is irrelevant to the conclusion about whether or not the
3 access charges are reasonable.

4 Q. Well, then is the earnings question relevant,
5 if you reduce access because you think they're
6 unreasonable but the company is not overearning, would
7 you agree that the company should be allowed to offset
8 those reductions through increases in other rates?

9 A. That's a big if, but given that if, then the
10 answer is yes.

11 MR. CARRATHERS: Thank you, those are all my
12 questions.

13 CHAIRWOMAN SHOWALTER: I have a follow up to
14 one of the questions.

15

16 E X A M I N A T I O N

17 BY CHAIRWOMAN SHOWALTER:

18 Q. You said that you thought that an access
19 charge that complies with the access charge rule could
20 nevertheless not be fair, just, and reasonable. Is that
21 because there are other filters through which a rate
22 must pass in order to be found to be fair, just, and
23 reasonable?

24 A. Yes, that rule is really a rule about
25 terminating access rates, and it constrains what

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1 companies can charge for terminating access. The only
2 relevance of that rule to the originating charge is the
3 provision that allows a company in order to bring itself
4 into compliance on the terminating side that it can make
5 a revenue neutral increase in the originating rate if
6 certain conditions are met, including the public
7 interest test. Beyond that, the rule says nothing about
8 what originating rates should be. You know, so a rate
9 that's -- the rule doesn't say that you can't charge \$6
10 a minute for originating access. It doesn't say you
11 can't charge 6 tenths of a cent or hundredths of a cent
12 for originating access. There is no provision in that
13 rule that determines what originating rates are legal.

14 CHAIRWOMAN SHOWALTER: Thank you.

15 JUDGE SCHAER: Did you have any redirect,
16 Ms. Smith?

17 MS. SMITH: Yes, thank you. Can I just have
18 a moment to look this over?

19 JUDGE SCHAER: Go ahead, please.

20 MS. SMITH: Thank you.

21

22 R E D I R E C T E X A M I N A T I O N

23 BY MS. SMITH:

24 Q. Dr. Blackmon, given Mr. Kopta's example that
25 wireless calls would someday be treated the same as

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1 interlocal calling area calls, just ordinary long
2 distance calls, do you think that companies like Verizon
3 in that case should then be required to lower their USF
4 additives like the ITAC due to the increase in
5 terminating minutes?

6 A. Yes, they should recover the same amount.
7 The amount is based on what it actually costs to serve
8 those high cost areas. So if you have more minutes, you
9 should lower the rate so that you get the same total
10 recovery.

11 MS. SMITH: Thank you, Dr. Blackmon, I have
12 nothing further.

13 JUDGE SCHAER: Is there anything further for
14 this witness?

15 Thank you, Dr. Blackmon, for your testimony.
16 Let's take another five minute stand in place break and
17 allow Dr. Blackmon to leave the stand and Ms. Erdahl to
18 come to the stand, and so let's be off the record for
19 just a few minutes.

20 (Recess taken.)

21 JUDGE SCHAER: Let's be back on the record.
22 While we were off the record, another witness has
23 assumed the stand.

24 Would you like to call your witness, please,
25 Ms. Smith.

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1 MS. SMITH: Yes, Your Honor, Commission Staff
2 calls Ms. Betty Erdahl to the stand.

3 JUDGE SCHAER: Then, Ms. Erdahl, would you
4 raise your right hand, please.

5

6 Whereupon,

7 BETTY A. ERDAHL,
8 having been first duly sworn, was called as a witness
9 herein and was examined and testified as follows:

10

11 JUDGE SCHAER: Go ahead then, Ms. Smith, your
12 witness is sworn.

13 MS. SMITH: Thank you, Your Honor.

14

15 D I R E C T E X A M I N A T I O N

16 BY MS. SMITH:

17 Q. Ms. Erdahl, would you please state your name
18 and give your business address for the record, please.

19 A. Betty Erdahl, that's E-R-D-A-H-L. Business
20 address is 1300, excuse me, 1300 South Evergreen Park
21 Drive Southwest, Olympia, Washington 98504.

22 Q. Ms. Erdahl, did you prepare testimony in this
23 case?

24 A. Yes, I did.

25 Q. Was it rebuttal testimony?

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1 A. Correct.

2 Q. Has that testimony been marked Exhibit T-150?

3 A. Yes, it has.

4 Q. Did you also prepare what's been marked as
5 Exhibits 151C, 152C, 153C, and 154C?

6 A. Yes, I did.

7 Q. If I were to ask you the questions that are
8 asked of you in your pre-filed testimony today, would
9 your answers be the same?

10 A. Yes, they would.

11 Q. Did you have any changes to your testimony?

12 A. Yes, we filed rebuttal testimony, 1 page,
13 page 12.

14 Q. And with that change, are there any other
15 changes to your testimony?

16 A. Not at this time.

17 MS. SMITH: I move the admission of Exhibits
18 150 through 154C.

19 JUDGE SCHAER: Any objections?

20 MS. ENDEJAN: Your Honor, Verizon has no
21 objection to their admission. However, I did distribute
22 during the break what is WUTC Staff Data Request Number
23 57, to which Exhibit 152C is the answer, and I would
24 just request that this be added to 152C for the sake of
25 completeness. I have discussed this with Ms. Smith, and

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1 I believe she has no objection.

2 MS. SMITH: That's correct, no objection,
3 Your Honor.

4 JUDGE SCHAER: Okay, then we are going to add
5 to what's been marked for identification as Exhibit 152C
6 a document, a one page document, a single page document
7 that states at the top WUTC Staff Data Request Number 57
8 and states below that response.

9 With that addition to Exhibit 152C, is there
10 any objection to admission of the offered documents?

11 Then Exhibits T-150, 151C, 152C, 153C, and
12 154C are admitted into the record.

13 Go ahead, Ms. Smith.

14 MS. SMITH: Thank you, Your Honor, Ms. Erdahl
15 is available for cross-examination.

16 JUDGE SCHAER: And did you have any questions
17 of Ms. Erdahl, Ms. Endejan?

18 MS. ENDEJAN: Yes, Your Honor, I will be
19 doing the cross-examination for Verizon.

20

21 C R O S S - E X A M I N A T I O N

22 BY MS. ENDEJAN:

23 Q. Good afternoon, Ms. Erdahl.

24 A. Good afternoon.

25 Q. Let me just ask you as a preliminary matter

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1 if you would turn to Exhibit T-150, page 4, lines 16
2 through 17, and let me confirm that when you did your
3 analysis in this case, you relied upon another exhibit,
4 which is Exhibit 243 to Ms. Heuring's testimony, which
5 is the Verizon Northwest results of operation for
6 Washington state for the 12 months ending December 2001
7 as reported in the December 31st, 2001, quarterly
8 compliance report.

9 A. That's correct, as it's laid out in my
10 testimony, that was my starting point.

11 Q. Okay. Now with the exception of the five
12 adjustments to that financial data, which we will
13 discuss a little later, you accepted the financial data
14 reported in this year end report for 2002, did you not?

15 A. Meaning the Commission received it, it did.

16 Q. But you didn't have any other questions about
17 it other than the five adjustments that you have made as
18 discussed in your testimony?

19 A. Not at this time.

20 Q. Okay. And just to refresh your memory here,
21 before you prepared your testimony, isn't it true that
22 you met either in person or by telephone with Verizon's
23 regulatory accounting staff during the year 2002 on at
24 least three occasions to discuss the financial data?

25 A. Yes, the company contacted Staff to have an

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1 informal meeting on an earnings review, and that did not
2 occur until August of 2002, and electronic information
3 which was provided at the meeting was provided to Staff
4 later in September. So we worked informally September,
5 October, and November on the informal review.

6 Q. Okay. And isn't it true that in the course
7 of that informal review, you asked various informal data
8 requests of Verizon?

9 A. Yes.

10 Q. And would you say approximately 20 informal
11 data requests were submitted?

12 A. I do not recall how many, but that's probably
13 in the ball park.

14 Q. Okay. And isn't it true that then you
15 followed that up in this case with the submission of
16 formal data requests?

17 A. Yes.

18 Q. And do you remember preparing approximately,
19 and I won't hold you to this, 30 or so formal data
20 requests that the company responded to?

21 A. Directly relating to the earnings?

22 Q. Directly related to the earnings.

23 A. That's probably about right.

24 Q. All right. And you described your job
25 responsibilities on page 1 of your testimony, which is

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1 Exhibit T-150, as a regulatory analyst. As part of your
2 job responsibilities, do you regularly review the
3 financial data that Verizon Northwest is required to
4 submit to the Commission?

5 A. Actually, another Staff person was assigned
6 to that, and that's something I might start doing going
7 forward. But at this time, prior to this I have not
8 been.

9 Q. Okay. Are you aware of how many financial
10 reports Verizon Northwest submits to the Commission on a
11 periodic basis over the course of a year?

12 A. I believe we get at least quarterly reports,
13 possibly monthly reports, and an annual report.

14 Q. Okay would you accept subject to check that
15 Verizon Northwest submits 17 financial reports to the
16 Commission over the course of the year?

17 A. Subject to check.

18 Q. Thank you. Before you prepared your
19 testimony, did you pull together and look at any of
20 those financial reports?

21 A. Yes, I did.

22 Q. And do you recall which ones you looked at?

23 A. I looked at the more current information.
24 Let's see, in the informal earnings review we were
25 working with Verizon on the year 2001 in part because

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1 that was a full year of actual data, so mainly I looked
2 at 2001, which was presented by the company, and then in
3 addition what was happening in the year 2002 to the
4 extent that we had that information at the time.

5 Q. Okay. And when you prepared your testimony,
6 you relied on a 2001 test year because you didn't have
7 final 2002 data before you; is that correct?

8 A. That's part of the reason.

9 Q. Okay. And since you filed your testimony,
10 have you become aware of the fact that Verizon has
11 submitted a 12-31-2002 quarterly compliance report and
12 results of operations for 2002?

13 A. Yes, I'm aware that we received that.

14 Q. And have you had a chance to look at this
15 document, which has been marked, the documents, which
16 have been marked as Exhibits 168 and 169?

17 A. I have looked over them briefly.

18 Q. Okay. And are these the same documents that
19 you relied on for 2001 except they contain 2002 data?

20 A. They appear to be.

21 Q. Okay. Now in looking at Verizon's earnings
22 in this case, you wouldn't recommend to this Commission
23 that they use 2001 data when it has actual current 2002
24 data available to it, would you?

25 A. I might for a few different reasons. I see

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1 issues with uncollectibles from WorldCom that were a
2 large amount that hit the 2002 uncollectibles, and
3 somehow that needs to be addressed on an ongoing basis
4 when we set rates. In addition, VADI was in the test
5 year for 2001 I believe through November and then pulled
6 out, or VADI was reintegrated back into Verizon during
7 2001. And I don't know if you want to get into all the
8 details on that, but that has an effect on the test year
9 and what we would look at in setting rates.

10 Q. Okay, let me just cut to the chase here.
11 You're not suggesting that the Commission, however,
12 ignore the 2002 financial data the company has submitted
13 as it appears in Exhibits 168 and 169, are you?

14 A. No, not necessarily. I think we can look at
15 it, but I also think we need to look at the appropriate
16 rate making adjustments if we're using that information
17 to set rates.

18 Q. Okay. But wouldn't you agree with me that,
19 if possible, the most meaningful data for the Commission
20 to use would be the most current for it to have a fully
21 informed analysis of Verizon's true earning situation as
22 we sit here today?

23 MS. SMITH: I object to that question.

24 Ms. Erdahl answered the question where she said 2001
25 data may be appropriate, so I believe she has already

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1 answered that question that you have just asked.

2 MS. ENDEJAN: Well, Your Honor, I don't
3 believe I did ask that particular question, and I
4 believe given the position of this witness that she
5 relied upon 2001 data because 2002 data was not yet
6 available when she prepared her testimony, I think it's
7 important for the Commission to have a clear
8 understanding of what she's recommending they look at.
9 I think it would be very useful to the Commission for
10 her to clarify that.

11 JUDGE SCHAER: And your question was?

12 MS. ENDEJAN: I would be happy to repeat it.

13 JUDGE SCHAER: I believe it was previously
14 asked in a slightly different form, and if we could have
15 it in a form that was not so argumentative, I think
16 perhaps I would let you reask it just for clarity. Go
17 ahead, please.

18 BY MS. ENDEJAN:

19 Q. You're here today, Ms. Erdahl, to testify on
20 behalf of the Staff about the condition of Verizon's
21 earnings, are you not?

22 A. Well, the thrust of my testimony was to cast
23 doubt on the presentation that was testified to and
24 presented by Ms. Heuring.

25 Q. Well, okay, you're the earnings witness here,

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1 right?

2 A. Yes.

3 Q. We've got that established, okay. Now as the
4 earnings witness, and I'm going to ask you whether or
5 not you think it would be important for this Commission
6 to consider the most current financial data available to
7 it for it to make an informed analysis of Verizon's
8 financial situation as of today?

9 A. If we had all the supporting documentation to
10 look at the types of adjustments we would make just like
11 we did for the year 2001, then I think that would be
12 appropriate. But those statements as filed are not
13 adjusted for rate making adjustments that are
14 appropriate for setting rates.

15 Q. Okay. When you did your analysis and in
16 preparing your testimony, did you compare the financial
17 information you received from Verizon for 2000, 2001,
18 and 2002 as contained in Exhibit 243 I guess as modified
19 by the recently submitted results of operation for 2002?

20 A. So are you asking -- you're asking if I
21 compared the years to each other?

22 Q. Correct, did you take a look to see what was
23 happening over the years?

24 A. No. What I did was I took the most current
25 full test year that we had, which was 2001, and applied

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1 what adjustments I would make for rate making if we were
2 to look at a revenue neutral filing and decide whether
3 or not it's appropriate to increase rates. So I was not
4 looking at trends, I was looking at a snapshot test year
5 and determining what adjustments should be made for rate
6 making purposes.

7 Q. Just if you would help me perhaps do that,
8 however, for the Commission. Do you have Ms. Heuring's
9 testimony in front of you or Exhibit 243 to that
10 testimony, which is the document you said you relied
11 upon in doing yours?

12 A. Would that be NWH-2, page 1 of 3?

13 Q. That's correct.

14 A. Okay, I do have that.

15 Q. Okay. And if you look at that, could you
16 tell us what the total intrastate restated operating
17 revenues for 2000 was?

18 A. This isn't marked confidential, correct?

19 Q. No, this is fine.

20 A. Okay. \$412,720, and that's in thousands of
21 dollars so millions.

22 Q. And if you could flip the page, and I will
23 ask you the same question about the year 2001, what were
24 the company's total operating revenues?

25 A. \$404,319,000.

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1 Q. And if I could direct you to, excuse me,
2 Exhibit Number 168, if you could find the total
3 operating revenues on that for the Commission?

4 A. So this is for the year 2002?

5 Q. For the year 2002.

6 A. It's showing, this is unaudited that was
7 filed with us, \$377,524,000.

8 Q. And let me ask you if you wouldn't mind
9 making the same analysis for operating expenses for the
10 years 2000, 2001, and 2002?

11 A. So the total operating expenses for 2000 are
12 \$321,025,000; for 2001, \$311,637,000; and then for 2002,
13 \$322,020,000.

14 Q. Okay. And then finally if you would do a
15 comparison of the investment the company has made in
16 Washington as reflected in the line telecommunications
17 plant in service for each of those years?

18 A. One billion, or well, let's see, it's
19 \$1,736,283,000 for 2002; 2001 is \$1,822,417,000; and for
20 2002, you're showing \$1,865,983,000.

21 Q. Okay, and then if I could direct you to
22 Exhibit Number 170, which is entitled Verizon Northwest
23 revenue requirements State of Washington; do you have
24 that in front of you?

25 A. Yes, I do.

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1 Q. Okay. And if you could just tell us what the
2 net operating income for 2000, 2001, and 2002 appears to
3 be as reflected in this document?

4 A. For 2000, \$52,214,000; 2001 is \$53,038,000;
5 2002 is \$26,627,000.

6 Q. Thank you. Okay, now let's turn to the five
7 adjustments that you made to Verizon's 2001 results of
8 operations as you discuss in your testimony, okay. Now
9 you made these adjustments, and they are reflected on
10 what is Exhibit 151C; is that correct?

11 A. That's correct.

12 Q. Okay. And this is a confidential document,
13 so I'm just -- I'm not going to use the number, I'm just
14 going to generally try to describe the adjustment so
15 that we're all singing from the same sheet of music
16 here, okay?

17 A. Okay.

18 Q. Now first of all, when you made your
19 adjustments, you divided it into two categories, one
20 category of known and measurable with two adjustments
21 and three for rate making adjustments.

22 A. That's been adjusted to show that they're all
23 rate making adjustments. Some are restating
24 adjustments, some are pro forma adjustments, and then
25 there's at least one adjustment that is really a

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1 combination of a restating and a pro forma adjustment.
2 For sake of ease, I labeled them all rate making
3 adjustments, and they all have the same effect on the
4 bottom line.

5 Q. Okay. Well, you use the term known and
6 measurable, and that is a term that is associated with
7 regulatory accounting in connection with rate making, is
8 it not?

9 A. Correct.

10 Q. And what do you mean by the term known and
11 measurable?

12 A. Well, nothing was filed in this case, but if
13 there were a union contract that was up for renewal and
14 signed and you knew there was going to be an increase to
15 wages, that's a typical known and measurable change to
16 an expense, and that adjustment is made to increase the
17 expenses to the test year for that amount of the
18 increase in salaries or wages.

19 Q. I'm a little confused. What makes something
20 known for purposes of making I guess you would call it a
21 pro forma adjustment?

22 A. If you can quantify the amount.

23 Q. Okay. So how is that different from
24 measurable?

25 A. Well, okay, let me restate that. I guess

0590

1 known is we know it's going to happen. Measurable is
2 you can quantify an amount.

3 Q. Okay, thank you. The first adjustment that
4 you made on Exhibit 151C is what you would call a rate
5 increase directory assistance adjustment, correct?

6 A. That's correct.

7 Q. Okay. And if you could turn to Exhibit 155,
8 I believe those are the workpapers that Verizon
9 requested from you and that you provided in this case,
10 correct?

11 A. Yes.

12 Q. Okay. And they're not numbered, but I
13 believe the second to last page of this exhibit is your
14 analysis of increase to directory assistance rate.

15 A. That's right.

16 Q. Is this the only page that would reflect how
17 you calculated the rate increase to directory
18 assistance?

19 A. Yes, it's labeled BAE-5-C at the top, and I
20 did label the final number on that page in the kind of
21 bottom right-hand corner, tried to tell you which line
22 to go to on the overall revenue sheet to see where that
23 number ties in to the overall earnings.

24 Q. Okay.

25 A. Results of operations.

0591

1 Q. Okay. Now if you look at your original
2 worksheet, you based your calculation on a current rate
3 of 60 cents, correct?

4 A. Actually, this exhibit was revised.

5 Q. Okay, but I just wanted to -- so you
6 clarified your current rate of 60 cents, and you
7 adjusted it down for I guess changes in Verizon's actual
8 directory assistance rates, correct?

9 A. Correct, the rates were 55 cents for part of
10 the year, 25 cents for part of the year in 2001. Mid
11 year those rates increased, and then we also proposed a
12 further increase to the \$1.25.

13 Q. Okay. Now Verizon itself had not decided to
14 increase its directory assistance rates by \$1.25, did
15 it?

16 A. No, it did not. This was a rate making
17 adjustment that we made on the basis that this is a
18 competitively offered service and can be filed under a
19 price list with ten days notice and would probably go
20 through.

21 Q. Okay. So to summarize, you calculated some
22 additional revenue that would be attributable to an
23 increase in the rate, correct?

24 A. Correct.

25 Q. And this additional revenue you added to

0592

1 Verizon's revenues for 2001, correct?

2 A. Yes.

3 Q. And this additional revenue wasn't due to any
4 actual rate that the company offers, but rather the rate
5 that you think the company should offer?

6 A. The rate that we're seeing offered by other
7 carriers. It's a competitive rate in the market.

8 Q. So if other carriers -- so is it your
9 position that the company should raise its rates if
10 other carriers raise their rates for purposes of
11 increasing revenues to add to the bottom line?

12 A. I'm not asserting that they necessarily
13 should, but if other -- if that's a competitive service
14 that's offered and other carriers are pricing it at the
15 higher rate, the \$1.25, then to not do that when you're
16 setting rates ends up in higher rates for the captive
17 local rate payer who has local residential service
18 through this company, and so it's a rate making
19 adjustment that was made to reflect --

20 Q. So if the Commission followed your logic here
21 then, the Commission could impute revenues for rate
22 increases for competitive services that the Commission
23 decides on its own should be increased because other
24 carriers charge that rate. Is that what you're
25 advocating here?

0593

1 A. I'm advocating --

2 MS. SMITH: Your Honor, I'm going to object
3 to that question. I don't think Ms. Erdahl said the
4 Commission should do that. I believe Ms. Erdahl is
5 testifying as to what the Commission could do if the
6 company were to come in for a rate case and make some
7 adjustments. I believe the question misstated
8 Ms. Erdahl's answer to the earlier question, and I
9 object to it on that ground. If perhaps she could reask
10 the question to reflect Ms. Erdahl's answer, then I
11 would withdraw an objection to it.

12 JUDGE SCHAER: I believe the objection is
13 that the question misstates whether Ms. Erdahl was
14 advocating something or explaining something, and --

15 MS. ENDEJAN: Okay, I certainly --

16 JUDGE SCHAER: -- what's your response?

17 MS. ENDEJAN: My response is I certainly
18 didn't mean to mischaracterize Ms. Erdahl's previous
19 answer, and I apologize if I did so.

20 JUDGE SCHAER: I'm not making a finding yet,
21 I'm just saying that's what I think the objection is and
22 asking you if you want --

23 MS. ENDEJAN: I would be happy to rephrase
24 the question, Your Honor.

25 JUDGE SCHAER: Thank you, counsel.

0594

1 BY MS. ENDEJAN:

2 Q. So I'm just trying to understand your
3 position in connection with the directory assistance
4 adjustment that you made. And as I understand it, it's
5 your view that the Commission could make a rate making
6 adjustment to impute additional revenues due to rate
7 increases for competitive services that the company may
8 not have made but it could make because other carriers
9 charge higher rates. Is that a fair statement of your
10 testimony?

11 A. I believe the Commission could choose to do
12 that.

13 Q. Let's turn to the second adjustment that you
14 made on your -- actually, it's the third adjustment on
15 Exhibit 151C, and it's called I guess the "line sharing
16 adjustment"; do you see that?

17 A. Yes, I do.

18 Q. And you added additional revenues to take
19 into account the fact that the service had not yet
20 started in 2001, correct?

21 A. Correct.

22 Q. And, in fact, the service started in January
23 of 2002, correct?

24 A. Line sharing started in 2002.

25 Q. I'm sorry, line sharing started in 2002?

0595

1 A. Right, the practice of charging the \$4.

2 Q. And if the company used the -- or wouldn't
3 the 2002 results of operations that recently has been
4 filed include revenues from line sharing?

5 A. It would, it should, and we have not looked
6 at that year and made rate making adjustments to that
7 year.

8 Q. So if you relied on 2002 data, you wouldn't
9 have to make that line sharing adjustment, assuming that
10 the company included line sharing revenues in 2002,
11 correct?

12 A. If they included it, you shouldn't have to do
13 that, correct.

14 MS. ENDEJAN: Okay, thank you.

15 Your Honor, I have just a question before I
16 get into another line of inquiry, are we adjourning for
17 the day at 3:30, or are we --

18 JUDGE SCHAEER: Yeah, we are going to adjourn
19 for the day at 3:30, so is this a good time for you to
20 break?

21 CHAIRWOMAN SHOWALTER: We'll adjourn after
22 this witness, I'm sorry. Commissioner Hemstad had to
23 leave at 3:30.

24 MS. ENDEJAN: Oh, I see, okay, I was
25 confused. I thought we were adjourning at 3:30 for the

0596

1 day.

2 CHAIRWOMAN SHOWALTER: It's that we were
3 going to -- well, the main thing is Commissioner Hemstad
4 had to leave, and so I think we will finish with this
5 witness but then take up again in the morning so he
6 doesn't miss too much, and he said he will be sure to
7 read this testimony.

8 JUDGE SCHAER: And is this a good place for
9 you to take a break for our afternoon recess?

10 MS. ENDEJAN: That would be just wonderful.

11 JUDGE SCHAER: All right.

12 MS. ENDEJAN: Thank you.

13 JUDGE SCHAER: Well, then it's 3:30, and why
14 don't we then break now and come back at quarter to 4:00
15 and finish with Ms. Erdahl and call it a day, so we are
16 off the record.

17 (Recess taken.)

18 JUDGE SCHAER: Let's be back on the record
19 after our afternoon recess. Ms. Endejan, did you have
20 more questions to ask the witness?

21 MS. ENDEJAN: I do, Your Honor.

22 JUDGE SCHAER: Go ahead, please.

23 BY MS. ENDEJAN:

24 Q. Ms. Erdahl, just to follow up on my last line
25 of inquiry, are there any adjustments in your analysis

0597

1 that reflects revenue losses that Verizon may have
2 incurred because it was required to make rate reductions
3 due to competition?

4 A. No.

5 Q. Okay.

6 A. This was a high level analysis, and it does
7 not include all the adjustments that we would make if
8 this were a rate case, and there would be more
9 adjustments, probably some going both directions.

10 Q. Okay. Let me ask you about your adjustment
11 that you call on Exhibit 151C, adjust October, November
12 revenue and expense to normalize; do you see that?

13 A. Yes, I do.

14 Q. Okay. And I don't mean to put words in your
15 mouth, but let me see if I understand exactly what you
16 were doing in that adjustment. Would it be correct in
17 stating that you viewed the November revenues to be
18 abnormally low, so you raised them to December levels,
19 and conversely you viewed I guess November expenses to
20 be too high and you reduced them. Is that the
21 normalization process you went through?

22 A. That's correct.

23 Q. And in looking at your testimony on page 8,
24 you state at lines 13 and 14:

25 It seems that these variances relate to

0598

1 the reintegration of VADI.

2 Do you see that?

3 A. Yes, I do.

4 Q. Okay. Do you know when VADI was reintegrated
5 into Verizon Northwest?

6 A. Not exactly. I believe it was October or
7 November of 2001.

8 Q. Okay. Would you agree with me subject to
9 check that, in fact, VADI's reintegration occurred as of
10 January 2002?

11 A. I would rather just state that I don't know
12 that that's the correct date.

13 Q. All right. Now if you had -- if you relied
14 on the recent financial information for 2002 as
15 reflected in Exhibits 168 and 169, you wouldn't have to
16 make this October, November expense adjustment, would
17 you?

18 A. Those numbers have not been audited, and we
19 would analyze them. Staff would analyze those numbers
20 to see if there were large fluctuations and inquire as
21 to the reasonableness of those fluctuations. So there
22 may be adjustments made. I do not know at this time.

23 Q. Okay. But I'm talking about this particular
24 adjustment.

25 A. If it is related to VADI, which I'm not sure

0599

1 whether it is, I said it appears to be, then that
2 adjustment may not need to be made, but I would not like
3 to say for certain at this time.

4 Q. And I believe we asked you in our data
5 request to you for information supporting your belief
6 that this adjustment was required due to the
7 reintegration of VADI. Do you recall us asking you
8 that, or do you recall -- or let me rephrase the
9 question, strike that, excuse me.

10 Let me just ask you and cut to the chase
11 here, what evidence do you have upon which you base your
12 belief that the variances in October and November of
13 2001 related to the reintegration of VADI as opposed to
14 some other reason such as a normal month-to-month
15 variation in revenues and expenses?

16 A. I believe it was during the informal earnings
17 review that I got that impression from discussions and
18 possibly a response at that time, and that's not
19 something that's been included in the record. I'm not
20 for certain that it's related to VADI, but the fact is
21 there's -- it appears as if something funny is going on,
22 and we just wanted to try and normalize the test year
23 and make sure that the levels of expenses and revenue
24 were not under or overstated.

25 Q. Okay. So it's just that those two months

0600

1 stuck out as being abnormal?

2 A. Quite a bit, yes.

3 Q. Okay. And in your review of the company's
4 books and records, has it been your experience that
5 companies ever experience variances from month to month
6 in revenues and expenses that ultimately get trued up at
7 the end of the year?

8 A. Yes, there can be variances, and there can be
9 a need for true ups, and a lot of times that new accrual
10 going forward is at a different level because of the
11 need for the true up and looking at these, say the
12 revenues, if the revenues were actually being trued up
13 with a decrease to the revenue, then one might see a
14 different accrual going forward in 2002 if the
15 appropriate levels aren't being accrued each month, and
16 I did not see those accrual levels change in 2002 in the
17 monthly reports.

18 Q. Okay. Let me ask you a question about pages
19 9 and 10 of your testimony relating to merger transition
20 costs and savings, if I could direct your attention to
21 that.

22 A. Okay.

23 Q. And I don't want to mischaracterize your
24 testimony, but is it safe to say that you contend that
25 the merger costs should not be recognized in rates, but

0601

1 the savings should be?

2 A. That's correct, and that's based on findings
3 by the Commission in prior orders relating to different
4 companies.

5 Q. Okay. But did you, in making that statement,
6 did you review the settlement agreement in connection
7 with the merger?

8 A. I did, and if I remember correctly, it was
9 silent to that issue, which does not -- I don't know
10 that that means that issue was not addressed, but I
11 didn't see specific language in the merger agreement
12 about merger costs that I recall.

13 Q. Okay. So in other words, you can't point to
14 any specific order or rule that demonstrates that
15 Verizon agreed to eat the merger costs but continue to
16 share the savings in rates?

17 A. No, but I would rely on the Commission order
18 UT-991358 in the Qwest merger where merger costs were
19 not allowed to be recovered by the rate payers. And
20 this was also the same issue was addressed with
21 Pacifidor and GTE Contel merger, and I don't have those
22 two docket numbers handy.

23 Q. All right. Let me ask you, seeing as how you
24 apparently have done a little bit of research to prepare
25 for your testimony and for being here today, are you

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1 aware of any Commission decisions established such as
2 U-8523, are you familiar with that order, the
3 Commission's order in Docket Number U-8523?

4 A. I have read it but not recently.

5 Q. Okay. But would it be safe to say that
6 you're aware that the Commission has made decisions in
7 dockets such as U-8523 that set policies that determine
8 what percentage of Verizon's intrastate revenues should
9 be recovered from local as opposed to access services?

10 A. I believe that was addressed in that order,
11 but it is an old order, and things are changing, so I'm
12 not sure whether that still applies today.

13 Q. Sure. But looking at -- are you aware of any
14 Commission order or rule that supplanted or replaced or
15 repealed the Commission's order in Docket Number U-8523?

16 MS. SMITH: Your Honor, this is not
17 necessarily an objection, but there are many, many
18 Commission orders in Docket U-8523, and if you have one
19 in particular, maybe we can make the record more clear.

20 MS. ENDEJAN: Okay, I'm sorry, I apologize, I
21 always just think of -- hello, I'm having a senior
22 moment. Is it the 15th or 18th?

23 MR. KOPTA: 18th.

24 MS. ENDEJAN: 18th supplemental order in
25 Docket Number U-8523, that is the order I'm referring

0603

1 to.

2 BY MS. ENDEJAN:

3 Q. And is that the order that you understand me
4 to be asking you questions about?

5 A. Now it is, yes.

6 Q. Okay, and I apologize for the confusion here.
7 But let me ask you if you, in looking at Ms. Heuring's
8 exhibits, which are Exhibit 243 that you apparently
9 reviewed in preparing your testimony, did you take a
10 look at or determine what percentage of the company's
11 revenues came from access charges as opposed to local
12 services?

13 A. No, I did not. I looked at the overall
14 earnings of the company and made some high level
15 adjustments. This is not a rate case, so we did not
16 address all the issues we would in a rate case.

17 Q. Okay. And based upon that exhibit, and I'm
18 just going to ask you because I think these can be
19 mathematically verified, if you would accept subject to
20 check that based upon Exhibit 243 that in the year 2000
21 local revenues were responsible for 65% and access 26%
22 of the company's intrastate revenues, in 2001 local
23 accounted for 68%, access 23%, and in 2002 local
24 accounted for 68% and access 23%. Would you accept that
25 subject to check?

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1 A. I guess if it's coming from the reports that
2 you have in front of you, I would rather just let the
3 documents stand as they are on the record.

4 Q. Okay, well --

5 A. Your math might be correct.

6 Q. All right. But for purposes of my questions,
7 will you accept those numbers?

8 A. Sure.

9 Q. And recognizing that the documents speak for
10 themselves and this can be mathematically computed.

11 A. Yes.

12 Q. Okay. Did you do any analysis of -- or
13 strike that.

14 Have you reviewed all the testimony of all
15 the witnesses in this case?

16 A. I did read all the testimony.

17 Q. Okay. Do you understand AT&T's proposal that
18 would call for a \$38 Million reduction approximately in
19 access charges on Verizon's part?

20 A. Yes.

21 Q. And do you also understand AT&T's proposal
22 with respect to the possible elimination of the ITAC as
23 an access charge?

24 A. Yes.

25 Q. Okay. Did you do any analysis of how the

0605

1 percentages of local to access revenues might change if
2 the Commission reduced access charges down to the levels
3 that AT&T is advocating?

4 MS. SMITH: I'm going to object to this
5 question. It's beyond the scope of Ms. Erdahl's
6 testimony. She filed rebuttal testimony only to the
7 testimony of Ms. Heuring, and I believe this line of
8 cross is beyond the scope of what she offered in her
9 rebuttal testimony.

10 JUDGE SCHAEER: The objection is that it's
11 beyond the scope of her testimony. Ms. Endejan, your
12 response?

13 MS. ENDEJAN: Well, I guess my response, Your
14 Honor, is that this witness is here advising the
15 Commission with respect to the potential earnings
16 situation of Verizon Northwest as it relates to the
17 proposed access charge reductions advocated by AT&T.
18 It's not in a vacuum that Ms. Erdahl is here. And my
19 question goes to not only what she did do but perhaps
20 what she did not do for purposes of looking at the
21 financial impact on behalf of the Commission Staff to
22 advise the Commission about what this all means at the
23 end of the day, how is this going to adjust Verizon's
24 revenues, in what way. If the Commission doesn't hear
25 it from, you know, Commission Staff or ask questions

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1 about it, well, then frankly I don't know how they're
2 going to be informed, and I would urge the Commission as
3 it has done in the past to take a broad view as to the
4 relevancy of inquiry, particularly when that inquiry
5 might assist the Commission in kind of understanding the
6 big picture here.

7 MS. SMITH: And, Your Honor, in a general
8 sense I would agree with Ms. Endejan, but the objection
9 that I made has to do with asking these questions of
10 Ms. Erdahl. She is not the access charge witness in
11 this case. She is testifying for Staff for the very
12 narrow and specific reason to rebut the evidence
13 presented by Ms. Heuring. If counsel for Verizon had
14 questions with respect to the Commission's regulatory
15 policy on access charges for however so many years, that
16 inquiry would be more properly posed to Dr. Blackmon
17 when he was on the stand. Ms. Erdahl is here simply to
18 rebut the earnings testimony offered by Ms. Heuring.
19 She's not our access charge witness.

20 MS. ENDEJAN: Well, Your Honor, if I might
21 briefly respond, she's the earnings witness, but it is
22 relevant in the sense of we're looking at where
23 Verizon's earnings come from. They come from primarily
24 two sources, local and access. I'm not asking her
25 policy questions, I'm asking her financial,

0607

1 mathematical, analytical, accounting questions. I don't
2 intend to ask her any policy questions about this
3 choice. I'm just asking her, did she do this analysis.
4 If she didn't, well, then I will move on.

5 COMMISSIONER OSHIE: Ms. Endejan, for my
6 sake, would you please repeat specifically your
7 question.

8 MS. ENDEJAN: Certainly. I asked Ms. Erdahl
9 if in the course of her financial analysis she took a
10 look at how the percentages in revenues would change of
11 access to local if the Commission reduced access charges
12 to the levels that AT&T proposes.

13 (Discussion on the Bench.)

14 JUDGE SCHAEER: We're going to sustain the
15 objection. I think when you get to the point where
16 you're asking a Staff witness to talk about analysis of
17 AT&T's proposal that we're getting too far beyond her
18 testimony at this point.

19 Go ahead, please.

20 MS. ENDEJAN: Thank you.

21 BY MS. ENDEJAN:

22 Q. Let's turn to the next adjustment that you
23 made on Exhibit 151C, or actually it would be the last
24 adjustment, which you call the directory publishing
25 imputation; do you see that?

0608

1 A. Yes, I do.

2 Q. Okay. Now would I be correct in stating that
3 the formula you used to calculate this numerical
4 adjustment came from the last U S West now Qwest rate
5 case?

6 A. Yes, that's where the formula came from.

7 Q. And at the beginning of your testimony, you
8 said that as part of your job responsibilities you also
9 are charged with examining affiliate transactions.

10 A. That's correct.

11 Q. Would part of your job responsibilities
12 include examining transactions between what was formerly
13 known as GTE Northwest and GTE Directories?

14 A. That's something that is part of my job
15 duties. I haven't done it for this company in
16 particular at this time.

17 Q. Did you ever or would you accept subject to
18 check that GTE Northwest, now Verizon Northwest, never
19 owned GTE Directories, now Verizon Information Services,
20 and that VIS is what I will call it was always a
21 separate company?

22 A. That's correct, but there's been numerous
23 cases of which one was appealed and upheld by the
24 Thurston County Superior Court in which case imputation
25 was upheld for GTE.

0609

1 MS. ENDEJAN: Your Honor, I appreciate and
2 counsel can clarify on redirect, but my question, I
3 would move to strike that portion of the answer as not
4 responsive to my question, which is whether she knew or
5 didn't know whether these were separate companies.
6 That's all the question called for.

7 JUDGE SCHAER: I'm going to limit the answer
8 to the response to that question, but will allow you to
9 ask on redirect, Ms. Smith, what that means in terms of
10 the Commission's view of the affiliated transactions, if
11 anything.

12 MS. ENDEJAN: Thank you.

13 BY MS. ENDEJAN:

14 Q. I guess from your former answer to one of my
15 questions that you were not familiar with the
16 arrangement between GTE Northwest and GTE Directory
17 Services; is that correct? I mean, I'm sorry, let me
18 strike that.

19 Have you ever reviewed any contract between
20 GTE Northwest and GTE Directory Services that would be
21 subject to review by this Commission under the affiliate
22 rules?

23 A. No, I have not. I relied on previous
24 Commission orders in the last rate case as opposed to
25 whether or not to make this adjustment.

0610

1 Q. Okay. And those orders in particular related
2 to Qwest, correct?

3 A. No, I have three dockets I can give you that
4 relate to GTE Northwest if you would like them.

5 Q. Okay.

6 A. And one of them Ms. Heuring discusses in her
7 testimony.

8 Q. Okay.

9 A. The most recent one.

10 Q. All right. Let me ask you this. Have you
11 reviewed the contract that is in existence today between
12 Verizon Northwest and Verizon Information Services?

13 A. No.

14 Q. Are you aware that that contract is on file
15 with the Commission?

16 A. That doesn't surprise me.

17 Q. Okay. But you didn't look at it for purposes
18 of preparing your testimony?

19 A. No, I did not.

20 Q. So therefore I would be correct in stating
21 that you don't know what the new contract requires
22 Verizon to pay VIS for services that VIS might perform
23 on Verizon Northwest's behalf?

24 A. No, I don't know that, and I'm not sure
25 whether that's relevant in making this rate making

0611

1 adjustment either.

2 Q. Okay. Do you know, are you aware that
3 Verizon Northwest sells its subscriber listing
4 information?

5 A. Yes, I have read that somewhere.

6 Q. And it's called -- and just to act consistent
7 with basic telecom protocol, let's get a few more
8 acronyms in there. Are you aware that Verizon Northwest
9 is required to charge VIS the same rate for subscribing
10 listing information as it charges other directory
11 publishers?

12 A. I believe I read that.

13 Q. Okay. And would it be correct to interpret
14 your adjustment here, which is appearing on I guess
15 that's column L of Exhibit 151C, as you want Verizon to
16 impute that dollar amount to Verizon Northwest Inc.'s
17 revenues, correct?

18 A. Yes. And in doing that, you're basically
19 holding the affiliate at a cost plus reasonable return,
20 and then the rest of the additional revenue flows back
21 to the regulated company, which is where the white pages
22 came from.

23 Q. Okay. Now do you know if that was under the
24 old contract arrangement that Verizon had with a
25 directory company as opposed to the new arrangement it

0612

1 might have? Did you do anything to look into that?

2 A. No, I do not know. I gave the formula to
3 Verizon staff during the informal review, and they
4 provided the response to the data request, and I used
5 their number. Made sure that the numbers tied.

6 Q. Okay. Let's turn to the final adjustment
7 that you make on Exhibit 151C, and that's entitled
8 "correct interstate growth mismatch"; do you see that?

9 A. Yes, I do.

10 Q. Now the term interstate growth mismatch, is
11 that an accounting term, is that a term that comes from
12 any Commission rule or order, or is that a Betty Erdahl
13 term?

14 A. That's a staff term, we made it up.

15 Q. Okay.

16 A. We were trying to characterize what was going
17 on.

18 Q. Okay. Let me ask you so I understand what it
19 is that you're doing here. If you look at column K,
20 what you have done is you have taken --

21 MS. ENDEJAN: Excuse me just for a minute,
22 because I'm not certain if this number is confidential,
23 and I think it might facilitate the discussion if I
24 might get it on the record, but I would like to ask my
25 client.

0613

1 Your Honor, I have been advised that the two
2 numbers I wish to inquire about on Exhibit 151C, the
3 confidential designation can be removed from them.

4 BY MS. ENDEJAN:

5 Q. Specifically I would like to ask you about
6 the -- you are suggesting that \$28 Million approximately
7 be removed out of intrastate expenses, and if you look
8 at the bottom, approximately \$84 Million be removed out
9 of intrastate rate base, because you think those amounts
10 should be attributed to the interstate jurisdiction. Is
11 that a correct assessment of what you have done?

12 A. Yes.

13 Q. All right. Now when you analyze the
14 financial results of a company like Verizon, you
15 understand that the company starts with total state
16 regulated results, correct?

17 A. Yes.

18 Q. And is it also your understanding that the
19 company applies FCC's accounting rules that separate
20 revenues and expenses between interstate and intrastate?

21 A. Yes, they should be doing that.

22 Q. And in this case, you're not claiming that
23 Verizon failed to follow FCC's separation rules when it
24 filed its financial data upon which you relied, correct?

25 A. No, just like the imputation adjustment that

0614

1 Staff makes for rate making adjustment, that's something
2 the FCC doesn't prescribe, yet it's an adjustment we
3 make for rate making. This too is an adjustment that we
4 made that's for rate making purposes.

5 Q. Have you read part 36 of the FCC's rules?

6 A. Yes.

7 Q. All right. And I believe you quote a portion
8 of it in your testimony, but not the whole section of
9 Rule 36.1 of part 36.

10 MS. ENDEJAN: And with your permission, I
11 would like for the sake of completing the record, hand
12 the witness a copy of Rule 36.1 and ask her to read
13 subsection (h) in its entirety into the record. May I
14 approach the witness?

15 MS. SMITH: I also wonder if once Ms. Endejan
16 sits back down we could get a page and line for the
17 partial quote, please.

18 MS. ENDEJAN: Certainly.

19 JUDGE SCHAEER: I believe that may be page 6,
20 line 5.

21 MS. ENDEJAN: Thank you, Your Honor, that's
22 correct.

23 MS. SMITH: Thank you.

24 A. Okay, Section (h) says:

25 The separations procedure described in

0616

1 while the interstate jurisdiction enjoys
2 the effects of increased returns.

3 Is it your position in this case that, or I
4 don't want to put words in your mouth, that you think
5 the jurisdictional allocation process is flawed, not
6 that Verizon properly followed the FCC's jurisdictional
7 allocation process?

8 A. Yes, and I would like to echo what the joint
9 board members, I believe that's who it was, that said
10 once this issue is addressed, hopefully by 2006, there
11 could be huge shifts of investment and expense to the
12 interstate jurisdiction, and that could be a problem.
13 So what we're doing right here is trying -- attempting
14 in rebuttal testimony, if you were to set rates based on
15 this high level analysis, we do not believe it would be
16 fair or I do not believe it would be fair to include
17 these revenues, expenses and investment, when yet it
18 really might better be born by the interstate rate
19 payers. And then at some point in time, you know, if
20 you do allow these expenses and investment, then do you
21 come in and file, you know, a rate case to take that out
22 once the FCC has determined what their decision on the
23 issue is. I don't know, so.

24 Q. Okay. Let me ask you, you removed \$28
25 Million in expenses and \$84 Million in investment that

0617

1 appears to have been properly recorded pursuant to part
2 36 procedure, and you shifted them out of the intrastate
3 financials in your analysis, correct?

4 A. Correct.

5 Q. Do you know if Verizon would be allowed by
6 the FCC to report this \$28 Million and \$84 Million in
7 investment on Verizon's federal books? Do you know if
8 the FCC would allow that?

9 A. I don't know what they would allow for rate
10 making or rate setting purposes.

11 Q. Well, where would these numbers go,
12 Ms. Erdahl? They would just sort of vaporize into
13 space? I mean they've got to go somewhere.

14 MS. SMITH: Your Honor, I'm wondering if
15 that's a question, not more a statement.

16 JUDGE SCHAER: Would you like to restate that
17 point, Ms. Endejan.

18 BY MS. ENDEJAN:

19 Q. The question is precisely where do these
20 numbers go once they're shifted out of the intrastate
21 financials?

22 A. Well, in depicting with this adjustment being
23 made and shifting it to the interstate jurisdiction, the
24 interstate jurisdiction still shows a 19.43% return, so
25 I believe those costs really in effect are being covered

0618

1 by revenue on the interstate side.

2 Q. But that wasn't my question, Ms. Erdahl. Do
3 you know if Verizon could take your adjustment and carry
4 it over to its interstate federal books; do you know for
5 a fact?

6 A. I do not know, and I'm not asking them to do
7 that.

8 Q. Okay. Let me ask you hypothetically. What
9 would happen if Verizon's interstate revenues grow only
10 at say a rate of 7% and its interstate expenses grew at
11 a rate of say 33%, would you increase Verizon's
12 intrastate revenue requirement to make up for this
13 interstate growth mismatch?

14 A. Not if things were -- I couldn't look at it
15 just in a vacuum with those numbers in mind. There's
16 more going on here than just the allocation factors. If
17 things were being allocated appropriately, then we might
18 leave those expenses and investment on the interstate
19 side. If there were other issues like we're dealing
20 with this Internet issue and DSL and there may be other
21 issues that are lumped into this number, I don't know
22 for sure, then we would have to consider those.

23 Q. Okay. Turning to Exhibit Number 165, have
24 you had a chance to review this before you prepared to
25 sit down here and testify today? It had been marked as

0619

1 one of your cross-examination exhibits.

2 A. I looked at it, yes.

3 Q. And did you ever look to see if any other
4 companies other than Verizon are experiencing a similar
5 "interstate growth mismatch" prior to preparing your
6 testimony?

7 A. No, because they're not before us at this
8 time seeking to increase rates.

9 Q. So it's possible that other companies such as
10 Qwest may be experiencing a similar interstate growth
11 mismatch?

12 A. I do not know.

13 Q. Okay. Did you quantify the effect of your
14 five proposed adjustments in terms of figuring out what
15 they would add in total to the company's rate of return?
16 In other words, did you look to see how the rate of
17 return would be increased by adding the directory
18 assistance rates?

19 A. I didn't look at them individually.

20 Q. So you came up with a -- would you accept
21 subject to check that that would add .12% to the
22 company's rate of return for the directory assistance
23 rate increase revenues?

24 A. I guess I would accept that subject to check.
25 If I have to do additional work, I would rather let the

0620

1 document, my exhibit, stand as is on the record.

2 Q. Well, I think that if you look at your --
3 it's your testimony that based upon your adjustments and
4 based upon using the rate of return from 2001, you came
5 up with a rate of return of 11.57%, correct?

6 A. Correct.

7 Q. Okay.

8 A. And that's just the five high level
9 adjustments that I used in rebuttal testimony. That's
10 not a rate case.

11 Q. Okay. So if you subtracted 5.5% from your
12 11.5%, you would come up with, oh, God, I'm
13 mathematically impaired, 6.7%. Will you accept that
14 subject to check?

15 A. Sure.

16 Q. Okay. And if you accepted, I'm just asking
17 you for the sake of this question, if you accepted the
18 rate of return that Ms. Heuring calculated in, or I'm
19 sorry, that the company has calculated as reflected in
20 Exhibit 168, which is 2.42%, and if you added that to
21 the additional return associated with your adjustments,
22 what would you come up with? In other words, if you
23 added 6.07% and 2.42%?

24 JUDGE SCHAER: Counsel, is there some reason
25 that we're having these numbers computed on the record

0621

1 and that you can't use the evidence that's going to be
2 in the record to make these same statements?

3 MS. ENDEJAN: Well, Your Honor, I'm two
4 questions away from conclusion.

5 JUDGE SCHAER: All right, I just didn't know
6 if there was. If there is, go ahead.

7 BY MS. ENDEJAN:

8 Q. And what is that number, Ms. Erdahl?

9 A. So I think you were coming up to 8.47%.

10 Q. Okay. And is that below the company's
11 current authorized rate of return?

12 A. Yes, it is.

13 MS. ENDEJAN: Thank you, I have no further
14 questions.

15 JUDGE SCHAER: Did WorldCom have questions
16 for this witness?

17 MS. SINGER NELSON: No, thank you, Judge.

18 JUDGE SCHAER: AT&T?

19 MR. KOPTA: No, Your Honor, thank you.

20 JUDGE SCHAER: Commissioners, do you have
21 questions for Ms. Erdahl?

22 COMMISSIONER OSHIE: No questions.

23 CHAIRWOMAN SHOWALTER: No.

24 JUDGE SCHAER: And, Ms. Smith, do you have
25 any redirect?

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1 MS. SMITH: Yes, I do, Your Honor, thank you.

2

3 R E D I R E C T E X A M I N A T I O N

4 BY MS. SMITH:

5 Q. Ms. Erdahl, there was some discussion early
6 in your cross-examination about Verizon's 2002 annual
7 report. Do you know when the company or when the
8 Commission received Verizon's 2002 annual report?

9 A. I believe that I saw it for the first time
10 last week. It could have been filed a day or two before
11 that having been routed up to our section.

12 Q. And you stated in response to questioning
13 from Ms. Endejan that Staff had not made any adjustments
14 or you had not made any adjustments to Verizon's 2002
15 results. Do you recall that answer?

16 A. Yes.

17 Q. And in her questioning, Ms. Endejan suggested
18 to you that some of the adjustments you made to the 2000
19 results, 2001 results, I'm sorry, would not be
20 applicable to 2002 such as the line sharing adjustment
21 and the VADI adjustment. Do you recall that?

22 A. Yes, I do.

23 Q. So is it possible that if you were to make
24 regulatory adjustments to the 2002 results that there
25 might well be other appropriate adjustments to 2002 that

0623

1 simply did not arise in 2001?

2 A. Yes, there would be.

3 Q. Also in your cross-examination testimony you
4 went through various reports from 2000, 2001, and 2002.
5 Do you recall those questions and answers?

6 A. Yes, I do.

7 Q. Have the numbers that you gave in answer to
8 those questions from the 2000, 2001, and 2002 financial
9 reports been audited for rate making purposes?

10 A. No, they have not.

11 Q. Do you know whether or not the Washington
12 Commission has required GTE Northwest or Verizon to
13 impute revenue from its directory publishing affiliate
14 in the past?

15 A. Yes, I have three different docket numbers
16 that relate to GTE Northwest and its affiliate, and
17 imputation was addressed in each of those docket
18 numbers, and one in particular was appealed to the
19 Thurston County Superior Court and upheld that
20 imputation is appropriate.

21 Q. And, Ms. Erdahl, there were a number of
22 questions on cross-examination with respect to this
23 Commission's decision or one of the Commission's
24 decisions in Docket Number U-8523. Are you aware of the
25 Commission's decision in the recent or the fairly recent

0624

1 U S West rate case, UT-950200?

2 A. Yes.

3 Q. Are you familiar with the 15th supplemental
4 order in that case with respect to access charges?

5 A. I have read it.

6 Q. Would you agree that in that decision the
7 Commission supplanted the methodology in U-8523 for
8 fully distributed costs?

9 A. Yes.

10 MS. ENDEJAN: Objection, Your Honor, to the
11 extent that it calls for this witness to do two things,
12 first of all to interpret and calls for possibly a legal
13 conclusion. And secondly, I think that Ms. Smith
14 objected to my line of questioning in this area, and so
15 I think that if she felt that my line of questioning in
16 this area was irrelevant, I would submit that it's
17 similarly irrelevant for her to do so on redirect.

18 MS. SMITH: Yes, Your Honor, but I didn't
19 object to all of that line of questioning. I objected
20 later on in the line of questioning, and the record will
21 reflect several questions that Ms. Endejan asked
22 Ms. Erdahl with respect to the U-8523 proceeding that I
23 did not object to.

24 And it does not ask for a legal conclusion, I
25 am just asking this witness to say what she thinks this

0625

1 order said. And we have had several other witnesses
2 make similar testimony in this case specifically with
3 respect to Ms. Endejan's question about what the FCC
4 requires of the company and filing, and that's not a
5 legal conclusion either.

6 JUDGE SCHAER: Ms. Smith, do you have with
7 you a more complete citation to the order?

8 MS. SMITH: I apologize, I do not.

9 MS. ENDEJAN: Your Honor, I would also, you
10 know, object --

11 JUDGE SCHAER: Ms. Endejan, I'm still asking
12 questions to Ms. Smith.

13 MS. SMITH: I don't know, Your Honor, I
14 wasn't anticipating that line of questioning. Because
15 it was clearly outside the scope of her testimony, I
16 wasn't anticipating that line of questioning, so now I'm
17 attempting to ask a question to the best of my
18 recollection, and I don't have a more complete citation
19 to the order.

20 JUDGE SCHAER: I think it might be more
21 useful to the Commission to have a more complete
22 citation to the order such as which supplemental order
23 it is.

24 MS. SMITH: 15th supplemental order, Docket
25 Number UT-950200.

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1 JUDGE SCHAER: That helps.

2 MS. SMITH: I don't have a particular
3 quotation or paragraph number or page number handy.

4 JUDGE SCHAER: I'm going to allow you to ask
5 to see what the witness may know. I'm not going to
6 allow you to ask her for legal conclusions but simply
7 what her knowledge of that may be.

8 (Discussion on the Bench.)

9 JUDGE SCHAER: So, Ms. Endejan, did you have
10 anything?

11 MS. ENDEJAN: Well, Your Honor, I guess to
12 the extent the document speaks for itself, I mean the
13 Commission can read the 15th supplemental order and
14 whatever passage it is that Ms. Smith is relying upon.
15 And whether or not the Commission in that order
16 "supplanted" U-8523 is something for the Commission to
17 decide and not for this witness to opine upon. If it's
18 at all relevant to her understanding, and I submit that
19 it's not, then I don't see the point in asking her the
20 question. I mean the Commission's orders are the
21 Commission's orders, and her understanding of those
22 orders is only important if it informs her analysis and
23 her work in connection with this case, and that's what I
24 was probing in my cross-examination of her.

25 JUDGE SCHAER: Well, I'm going to stay with

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1 the ruling I gave. I will not let this witness give
2 legal opinion, but in so far as her knowledge or policy
3 information about this topic, I will allow her to
4 respond.

5 CHAIRWOMAN SHOWALTER: Ms. Endejan, we often
6 get this kind of objection, and non-attorneys are
7 nevertheless expert witnesses in their particular area,
8 and they often work within the confines of Commission
9 orders, FCC orders. They are regulatory experts of one
10 degree or another, and so we usually allow them to
11 answer questions like this, recognizing they aren't
12 attorneys, and allow them to stay within the confines of
13 their own expertise.

14 BY MS. SMITH:

15 Q. Ms. Endejan, do you recall the question? I
16 mean not Ms. Endejan.

17 MS. ENDEJAN: I would be happy to answer
18 that, Ms. Smith.

19 Q. I apologize, Ms. Erdahl, do you recall the
20 question?

21 A. Could you please repeat it?

22 Q. My question is, are you aware that the
23 Commission's 15th supplemental order in Docket Number
24 UT-950200, the U S West rate case, supplants the
25 methodology in Docket U-8523 for fully distributed

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1 costs?

2 A. I remember reading that.

3 MS. SMITH: That's all I have.

4 I'm sorry, that may not be all I have, one
5 moment please.

6 BY MS. SMITH:

7 Q. And one final question, Ms. Endejan, did the
8 Washington --

9 God, you know, it's not that easy to confuse,
10 I apologize. It must be getting late in the afternoon,
11 or maybe I'm still jet lagged or something.

12 Okay, this is for Ms. Erdahl. Did the WUTC
13 also change the access charge structure in adopting the
14 access charge rule, WAC 480-120-540?

15 A. Yes, it did.

16 MS. SMITH: I think that's all now, thank
17 you.

18 THE WITNESS: You're welcome.

19 JUDGE SCHAER: Anything further for this
20 witness?

21 Thank you for your testimony, you may leave
22 the stand.

23 I would like to have just a few minutes with
24 the attorneys before we conclude finally for the day,
25 because we need to get some pages from AT&T to replace

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1 some pages in something they had prepared for Mr. Fulp,
2 who I believe is going to be our first witness in the
3 morning.

4 MR. CARRATHERS: Your Honor.

5 JUDGE SCHAEER: Yes, sir.

6 MR. CARRATHERS: On that point, Charles
7 Carrathers for Verizon, would anyone object if we flip
8 the order of witnesses with Mr. Fulp and Mr. Danner,
9 have Mr. Danner go first and have Mr. Fulp go last.
10 This is going much more quickly than we had originally
11 anticipated, and the sooner we can get Mr. Danner on and
12 off, the better. Is there any objection to that? I
13 realize Your Honors may have prepared differently.

14 JUDGE SCHAEER: Have you discussed this with
15 counsel already?

16 MR. CARRATHERS: No, I have not had a chance,
17 Your Honor, we've just been discussing it.

18 JUDGE SCHAEER: Did commissioners have
19 concerns?

20 CHAIRWOMAN SHOWALTER: I don't have concerns,
21 but if there is a switch, be sure to call Commissioner
22 Hemstad at home and tell him.

23 MR. CARRATHERS: Thank you.

24 CHAIRWOMAN SHOWALTER: But we also defer to
25 the counsel who have to cross-examine.

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1 MS. SMITH: We don't have a problem with
2 that.

3 JUDGE SCHAER: Okay, I would like to go off
4 the record for about five minutes or fewer to get
5 support staff who will need to put the new pages into
6 the Commissioners' books to join us so that we can do
7 that together and very quickly, and then we can adjourn
8 for the day. So let's be back on the record at quarter
9 to 5:00. We're off the record.

10 (Recess taken.)

11 JUDGE SCHAER: Let's be back on the record
12 after a brief afternoon recess. At this point, I'm
13 going to ask Mr. Kopta, it looks like I need to pass out
14 sets of these to people; is that correct?

15 MR. KOPTA: Yes, Your Honor, I have passed
16 out sets to counsel and have provided six copies to the
17 Bench.

18 JUDGE SCHAER: Okay.

19 MS. ENDEJAN: Greg, I'm sorry, did you give
20 us something?

21 MR. KOPTA: This morning.

22 MR. CARRATHERS: The package from this
23 morning.

24 MS. ENDEJAN: Oh, that, okay.

25 JUDGE SCHAER: So as kind of my first

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1 question actually, did the parties decide whether or not
2 they would like to switch witnesses tomorrow, allow
3 Verizon to change its witness order?

4 MR. KOPTA: We don't have any objection to
5 them doing that.

6 MS. SINGER NELSON: I don't either.

7 MR. CARRATHERS: If we can just flip flop
8 Mr. Danner and Mr. Fulp, so Mr. Danner go first and
9 Mr. Fulp will go last.

10 JUDGE SCHAER: Okay.

11 MS. ENDEJAN: And, Your Honor, I just wanted
12 to again remind you, I don't think this is going to be a
13 problem, I will just step out of the room, but I have a
14 scheduling conference call with the Washington Supreme
15 Court in a matter that I'm handling from 1:30 to 2:00,
16 and Ms. Heuring is my witness, and I'm assuming she will
17 be on and off by then, but I just wanted to make sure
18 that -- to remind you of that schedule problem.

19 JUDGE SCHAER: We'll make sure we accommodate
20 that, I do have a note on that.

21 MS. ENDEJAN: Thank you.

22 JUDGE SCHAER: And I have in my notes also
23 that we're going to have to take her before Fulp or we
24 wouldn't get her on tomorrow, so we have moved out
25 smartly I'm glad to say, and that's not a worry any

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1 more. So we will start with Mr. Danner and then go to
2 Ms. Heuring, Mr. Tucek, Mr. Dye, and Mr. Fulp. Will
3 that clean it up; is that correct?

4 MR. CARRATHERS: Oh, I apologize, Your Honor.

5 JUDGE SCHAER: That's okay, I think we're all
6 a little bit worn out, but just let me double check
7 again. We'll start with Mr. Danner, we'll go to
8 Ms. Heuring, Mr. Tucek, Mr. Dye, and then Mr. Fulp; is
9 that correct?

10 MR. CARRATHERS: That's correct, Your Honor.

11 MS. ENDEJAN: We're starting at 9:00
12 tomorrow?

13 JUDGE SCHAER: We're starting at 9:30
14 tomorrow.

15 MS. ENDEJAN: Oh, 9:30, okay.

16 JUDGE SCHAER: And we will be in this room
17 again.

18 And then the other thing that we need to go
19 through is the materials that we have just been provided
20 by Mr. Kopta, and I want him just to very slowly walk us
21 through what goes in and what goes out so that that is
22 all ready to go in the right places in all of our books.

23 MR. KOPTA: I'm happy to do that.

24 JUDGE SCHAER: So go ahead, please.

25 MR. KOPTA: Okay. In the stack of papers

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1 that you have in front of you, these should be in order
2 if I organized them correctly, but the top document has
3 in the upper left-hand corner this docket number and
4 then Verizon's supplemental response to AT&T Data
5 Request Numbers 63 and 66. And the first line is Data
6 Request Number 63. This two page non-confidential
7 document should be substituted for what is currently in
8 Exhibit 211. So what's in there now is an earlier
9 version of the response to Number 63. This is the most
10 recent version with the latest supplement from Verizon.

11 JUDGE SCHAER: Well, then what I'm going to
12 do is mark this as substitute Exhibit 211, and I would
13 like -- is there a date that shows when this was
14 prepared? There appears to be in the middle a date of
15 2-14-03.

16 MR. KOPTA: No, actually it would be on the
17 second page, supplemental response dated May 1st, 2003.

18 JUDGE SCHAER: Okay. And then are you asking
19 that we replace the earlier document or that we just add
20 this as a correction to it or a supplement to it?

21 MR. KOPTA: I think the easiest thing is just
22 to replace it, although as a practical matter just the
23 second page would be added since what's in there right
24 now should just be the first page, so trying to make it
25 easy.

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1 JUDGE SCHAER: Well, then why don't we just
2 substitute it completely.

3 MR. KOPTA: That's what I would suggest would
4 be the easiest thing to do.

5 JUDGE SCHAER: Does that work for everyone?

6 MS. SINGER NELSON: Mm-hm.

7 MR. KOPTA: The next two documents stay
8 together, although they are separated. One of them is
9 entitled confidential attachment 63C. The other is
10 confidential attachment 63D. And these would just be
11 added to Exhibit 212C.

12 JUDGE SCHAER: Okay.

13 MS. ENDEJAN: Excuse me, Your Honor, can I
14 ask for clarification?

15 JUDGE SCHAER: Go ahead.

16 MS. ENDEJAN: That would include confidential
17 attachment 63D and then Data Request Number 66?

18 MR. KOPTA: No.

19 MS. ENDEJAN: Okay, sorry.

20 MR. KOPTA: Exhibit 212 now is comprised of
21 essentially four documents, confidential attachment 63A,
22 63B, 63C, and 63D.

23 MS. ENDEJAN: Okay.

24 JUDGE SCHAER: Okay. And next we have?

25 MR. KOPTA: Next we have a single

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1 confidential document that is Data Request Number 66.
2 This should replace what is currently in Exhibit 213,
3 and we will need to add a designation of C to that
4 exhibit because previously it was not designated as
5 confidential, but it's a replacement or actually a
6 supplemental response to Data Request Number 66.

7 JUDGE SCHAER: Okay.

8 MR. KOPTA: So take the old one out, and put
9 this one in.

10 MS. SMITH: Greg, I don't think I have that
11 one in my stack. It was DR 66.

12 MR. KOPTA: I've got plenty of copies, be my
13 guest.

14 MS. SMITH: And again, this was supposed to?

15 MR. KOPTA: It is supposed to replace what is
16 currently in Exhibit 213, so it will now be Exhibit
17 213C.

18 The next document is if you look at the
19 middle of the page, it's entitled supplemental response
20 to AT&T Data Request Number 34, and this should replace
21 what's currently in Exhibit 217, which is only a single
22 page. And I will note that there was a designation on
23 the front of this from Verizon that it contains
24 confidential material, but unfortunately the pages
25 themselves didn't indicate what was the confidential

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1 material, so I undertook to try and protect the numbers
2 which are the second two pages in this document.

3 JUDGE SCHAER: Are those the pages that you
4 were concerned about, Verizon?

5 MS. ENDEJAN: Yes.

6 MR. KOPTA: The remainder of the exhibit I
7 believe are filings with the Commission, which I believe
8 are public records unless there's something confidential
9 Verizon has filed as part of its annual report.

10 MS. ENDEJAN: No, I very much appreciate,
11 Mr. Kopta, that you did that, because I think that what
12 probably happened is I believe this was transmitted
13 electronically to you. Try as you can, I don't think
14 you can transmit pink pages.

15 MR. KOPTA: I'm glad that you can't. My eyes
16 wouldn't be able to take it.

17 JUDGE SCHAER: So I'm still a little bit
18 concerned about how we're going to treat this document.
19 Are we going to have to treat the whole thing as
20 confidential because of confidential pages, or should we
21 be splitting this into two parts? Maybe I should ask
22 Verizon that again just because it's your concern about
23 confidentiality.

24 MS. ENDEJAN: I guess it probably depends on
25 how Mr. Kopta wants to use it in cross-examination.

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1 We're happy to do whatever facilitates ease in doing
2 that.

3 MR. CARRATHERS: What if we, and I have no
4 idea if this is the practice here, but if we replace
5 this with 217, instead of doing a new exhibit number,
6 could we do page 1, then confidential page 2,
7 confidential page 3, and just paginate the rest of it so
8 that when he refers to it if he refers to it say, you
9 know, Exhibit 217, confidential page 2. It seems to me
10 it's either that or have two, create another exhibit.

11 JUDGE SCHAER: Yeah, it seems that it's
12 either that or we split out the two pages and we have
13 two pieces to 217. I think maybe I would like you to
14 look at the confidentiality order and see what it says
15 about that. It may be that just by including more
16 information on the front page we have accomplished that,
17 but I can't tell you from memory right now. There's
18 something there somebody needs to look at.

19 MS. ENDEJAN: You know what might be the
20 simplest thing to do frankly is just take these two
21 pages out, make them 217C.

22 JUDGE SCHAER: Okay.

23 MS. ENDEJAN: I think that just makes it
24 easy.

25 JUDGE SCHAER: Okay. So will you undertake

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1 to bring those in, or can everybody handle just doing
2 that?

3 MS. ENDEJAN: Can you handle just ripping
4 them out? They're all three-hole punched.

5 JUDGE SCHAER: Okay. So we're going to
6 designate as Exhibit 217 the white pages of this
7 document, and then we're going to designate as 217C the
8 pink pages of this document.

9 And then finally?

10 MR. KOPTA: Well, I wish it were final.

11 JUDGE SCHAER: That's not the final, is it?
12 Keep going, Mr. Kopta.

13 MR. KOPTA: Wishful thinking unfortunately.

14 The next document is a confidential document
15 that's four pages and is entitled supplemental responses
16 to AT&T Data Request Number 70, and we may need to do
17 the same thing with this one that we just did with the
18 other, because currently this would replace a portion of
19 Exhibit 218, which has a response, plus it has an
20 attachment. The attachment is not confidential. So
21 what I would propose is that this new portion of Exhibit
22 218 be 218C.

23 JUDGE SCHAER: Okay.

24 MR. KOPTA: And the attachment would be 218,
25 and we would just remove what's currently now the

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1 Verizon response to Data Request 70, just the question
2 and the response itself.

3 JUDGE SCHAER: I'm looking at the new
4 material in front of me. I have pink pages that go with
5 Number 70 and no white pages in that packet, and then I
6 have pink pages for Number 71, no white pages, and then
7 I have --

8 MR. KOPTA: Right, and I'm talking about
9 what's currently in the exhibit.

10 JUDGE SCHAER: In 218?

11 MR. KOPTA: Currently in 218, it is
12 non-confidential. There is our Request Number 70 and
13 Verizon's response.

14 JUDGE SCHAER: Okay.

15 MR. KOPTA: There may actually be -- it may
16 actually be a confidential, yeah, confidential single
17 page, and then there's Attachment 70.

18 JUDGE SCHAER: Okay.

19 MR. KOPTA: So we probably needed to break
20 this out anyway.

21 MS. SMITH: And attachment 70 is very thick,
22 right?

23 MR. KOPTA: Yes, it is.

24 MS. ENDEJAN: Sorry, it is late in the day,
25 Greg.

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1 MR. KOPTA: Yeah. So the replacement pages
2 would go in, the one single page which has our request,
3 and Verizon's initial response would come out.

4 JUDGE SCHAER: So this first page comes out?

5 MR. KOPTA: Correct, the first pink page
6 that's in there right now comes out.

7 JUDGE SCHAER: But does the first white page
8 come out of the existing exhibit?

9 MR. KOPTA: Is there a white page?

10 JUDGE SCHAER: The first page is white.

11 MR. KOPTA: Everything other than attachment
12 70 comes out. Let's put it that way.

13 JUDGE SCHAER: Okay. And then we have
14 attachment 70 that now includes these pieces?

15 MR. KOPTA: No, attachment 70 would be
16 separate. It's actually an attachment to this data
17 request response.

18 JUDGE SCHAER: So 218 --

19 MR. KOPTA: So 218 would be attachment 70.

20 JUDGE SCHAER: Okay.

21 MR. KOPTA: And 218C would be this four page
22 document that I just handed out today.

23 JUDGE SCHAER: Okay, and there's nothing in
24 218 right now that's confidential.

25 MR. KOPTA: Unfortunately there was something

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1 that was confidential, but we're taking it out, so we
2 have to sort of redo it.

3 MS. ENDEJAN: My current Exhibit 218 is the
4 sales and marketing agreement, et cetera, a big,
5 thick --

6 MR. KOPTA: Yes.

7 MS. ENDEJAN: Right, got that. And so then
8 218C is the new pink one?

9 MR. KOPTA: Correct.

10 MS. ENDEJAN: Okay.

11 JUDGE SCHAER: Okay, my 217C is not big and
12 thick.

13 MS. SMITH: 218, the non-confidential
14 portion.

15 JUDGE SCHAER: Okay, this one is big and
16 thick. I think either you're mixing the numbers, or my
17 ears are mixing.

18 MR. KOPTA: Could be both or either or who
19 knows.

20 JUDGE SCHAER: Okay.

21 MR. KOPTA: Bottom line is it's 218.

22 JUDGE SCHAER: And then the old 218 one page
23 confidential?

24 MR. KOPTA: Gone.

25 JUDGE SCHAER: Is gone, and we just move that

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1 sticker over to the new confidential?

2 MR. KOPTA: Right.

3 JUDGE SCHAER: And the old one we had
4 numbered 218a-C.

5 MR. KOPTA: Did we have an a-C?

6 JUDGE SCHAER: Yeah, we did, so let's make
7 the new one 218a-C and then we don't have to think.

8 MR. KOPTA: Fine, works for me.

9 JUDGE SCHAER: Okay. I can't throw this one
10 on the floor.

11 MR. KOPTA: Oh, that's right, you have to be
12 careful.

13 MS. SMITH: You know, Judge, the rule is
14 you're supposed to return it to the company.

15 JUDGE SCHAER: I thought the rule had been
16 modified to say --

17 MS. SMITH: I don't know.

18 JUDGE SCHAER: -- that you can also put it
19 through the shredder.

20 (Discussion off the record.)

21 MR. KOPTA: The next document is a four page
22 confidential document that will replace what is
23 currently in Exhibit 219.

24 JUDGE SCHAER: Okay.

25 MR. KOPTA: Or actually there isn't anything

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1 in 219, because it was a placeholder, so this will be
2 it.

3 JUDGE SCHAER: Okay. So this big thick thing
4 that says 218 will be replaced, right?

5 MR. KOPTA: No, the big thick thing stays.

6 JUDGE SCHAER: Okay, I will talk to Bob about
7 it.

8 219, okay.

9 MR. KOPTA: 219 was empty, but now it has a
10 four page confidential exhibit, so we would need to make
11 it Exhibit 219C.

12 JUDGE SCHAER: Okay, I've got 219C on my
13 list.

14 MR. KOPTA: And now we have last but not
15 least.

16 JUDGE SCHAER: Another mixed message.

17 MR. KOPTA: And what I had proposed that we
18 would do is designate this as Exhibit 403, because this
19 is a new exhibit that arose out of the response that we
20 got from Verizon recently. I'm really only interested
21 in the last page, but in the interest of completeness, I
22 am providing the entire document. If Verizon would like
23 the whole document to be in, I'm happy to do that.
24 Otherwise I will just put in the last page. So I will
25 leave it to them to decide what makes the most sense.

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1 JUDGE SCHAER: Is that something you want to
2 decide right now?

3 MR. CARRATHERS: Well, is this our response?

4 MS. ENDEJAN: This is the supplemental
5 response.

6 MR. KOPTA: This document I will represent to
7 you is Verizon's complete response to AT&T Data Request
8 Number 16.

9 JUDGE SCHAER: It really makes no difference
10 to the Bench, just make a call if we can.

11 MR. CARRATHERS: We can just introduce the
12 last page.

13 MR. KOPTA: That's fine.

14 MR. CARRATHERS: Thank you, Greg, I
15 appreciate it.

16 MR. KOPTA: Sure.

17 JUDGE SCHAER: Now is the request on the last
18 page?

19 MS. ENDEJAN: Yeah, I think the data request
20 should be attached to the last page, okay.

21 JUDGE SCHAER: I think so too.

22 MS. SMITH: So we have 403 and 403C.

23 MR. KOPTA: Right.

24 JUDGE SCHAER: Well, I think that if this is
25 just a question.

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1 MS. ENDEJAN: Why don't we just make the
2 whole thing 403C.

3 MR. KOPTA: Let's just do the whole thing,
4 yeah, 403C.

5 JUDGE SCHAER: Are you referring to -- other
6 than the first thing is all the confidential things that
7 respond to this it looks like. Are you comfortable with
8 that Ms. Smith?

9 MS. SMITH: Yes, I just offered that as a
10 suggestion. I'm comfortable with what anybody else
11 wants to do.

12 JUDGE SCHAER: Okay. So I'm going to mark
13 for identification at this time Exhibit 403C, a two page
14 document which is entitled at the top AT&T Data Request
15 Number 16, and then the second page contains
16 confidential figures.

17 So does that complete our exhibit project for
18 the evening?

19 MR. KOPTA: It does for me.

20 JUDGE SCHAER: Okay.

21 MR. CARRATHERS: Do you want to move -- do we
22 want to discuss introducing into the record the exhibits
23 for Dr. Selwyn, or do you want to do that Friday morning
24 and the contested exhibits? Again, I apologize, I'm
25 just not certain where we are in those.

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1 JUDGE SCHAER: Well, I would be fine with
2 your offer of Dr. Selwyn's exhibits now if you wanted to
3 since he has already testified, and that would keep them
4 going in on the same day. So if you want to offer those
5 right now, let's see if there's an objection and
6 otherwise get those admitted.

7 MR. KOPTA: That's fine. And I hate to make
8 more work, but there were some cross exhibits designated
9 for various Staff witnesses as well. I didn't know
10 whether it was the same kind of procedure.

11 MR. CARRATHERS: Right, we were going to
12 withdraw some -- I apologize, Your Honor.

13 JUDGE SCHAER: Well, let me ask this. Can we
14 talk about Exhibits 9 and 10, and then I do want to
15 raise more broadly the issue of the data request
16 responses.

17 MR. KOPTA: Yes.

18 JUDGE SCHAER: Because I had understood there
19 was some agreement between AT&T and Verizon, but I
20 noticed Verizon wasn't offering them on Staff witnesses
21 either, so I didn't know if that agreement had expanded,
22 and I would just like to have a clear understanding of
23 whatever the agreement is.

24 MR. KOPTA: Sure, I appreciate that, and just
25 to reiterate the discussion that I had with Judge Schaer

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1 off the record this morning, I neglected to include
2 Exhibits 9 and 10 among the exhibits that had been
3 attached to Dr. Selwyn's rebuttal testimony. So at this
4 point, I would move for the admission of Exhibits 9 and
5 10.

6 JUDGE SCHAER: Is there any objection?

7 Those documents are admitted.

8 MR. KOPTA: Thank you, Your Honor.

9 JUDGE SCHAER: Okay. Let's go back and just
10 kind of talk about what we're going to do with exhibits.
11 There are a number of exhibits identified and listed on
12 the exhibit list, and it was my understanding from
13 earlier discussion between AT&T and Verizon that those
14 two parties have reached an agreement that they would
15 stipulate in any Exhibits that were simply a data
16 request and response. It was also my understanding from
17 Verizon that they were going to withdraw a number of
18 their identified exhibits and that we talked about that
19 perhaps the best time to do that would be Friday morning
20 at a pre-hearing conference where the Commissioners did
21 not need to be present.

22 Is that also Staff's agreement as regards the
23 exhibits that are data requests and responses only?

24 MS. SMITH: I don't recall. I have flagged
25 four data requests and responses that we are objecting

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1 to simply because they go to testimony that's either
2 been stricken or withdrawn, and I thought that was
3 discussed at last week's pre-hearing conference when I
4 was not here.

5 MR. CARRATHERS: And again, Chuck Carrathers
6 for the record, Verizon Northwest, I may have been
7 confused on what exactly the process was or what we
8 agreed to, but basically Verizon marked as cross
9 exhibits all of the data request responses provided by
10 AT&T and Staff. Some of the responses provided by Staff
11 went to the rate rebalancing issue that the Commission
12 said we're not addressing in the motion to dismiss. And
13 given the motion to dismiss, we agree with Staff that
14 the exhibits Staff wants to withdraw are properly
15 withdrawn because they went to testimony that had been
16 stricken by the Commission. So we have -- and it is
17 very, I think, very easy to do. For Staff's we would
18 move into evidence all of the cross exhibits that we
19 identified on the exhibit list except for Number 139,
20 140 --

21 JUDGE SCHAER: Slow down, please.

22 Okay, go ahead.

23 MR. CARRATHERS: Again, we withdraw Number
24 139, Number 140, Number 142, Number 143, Number 117, and
25 Number 119. And by we, I meant to suggest Staff wanted

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1 a number of those withdrawn.

2 MS. SMITH: And that's my understanding as
3 well.

4 JUDGE SCHAEER: I know there was discussion of
5 this, that the parties would review what remained in
6 their testimony and exhibits and seek to identify what
7 should be withdrawn given the other rulings. Please
8 give me the last two numbers, was that 117 and 119?

9 MR. CARRATHERS: That is correct.

10 JUDGE SCHAEER: Thank you. So I will go ahead
11 and withdraw those now. And then you wish to offer --
12 you know, what we had talked about in my recollection
13 and one reason we were going to do this Wednesday is I
14 think you, Mr. Carrathers, in a moment of generosity
15 offered to make an exhibit list that showed what had
16 been withdrawn and what you proposed to offer. And I
17 was going to ask all three of the parties who had
18 exhibits in just to identify any exhibits that you had
19 identified but were proposing to withdraw. And I
20 believe I may have all four of yours dealt with,
21 Ms. Smith. Is that right?

22 MS. SMITH: Yes, Your Honor, that's correct.

23 JUDGE SCHAEER: So I don't know if AT&T has
24 any.

25 MS. SMITH: And actually, those weren't

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1 Staff's cross exhibits, those were Verizon's cross
2 exhibits of Staff's witnesses that we agreed Verizon
3 would withdraw.

4 JUDGE SCHAER: Okay. So I think right now
5 that we probably should call it a day and try to get
6 information brought in in writing --

7 MR. CARRATHERS: We can do that.

8 JUDGE SCHAER: -- Friday morning just --

9 MS. SMITH: And, Your Honor.

10 JUDGE SCHAER: Yes.

11 MS. SMITH: This is just a question, and
12 maybe it's wishful thinking, but at the pace this
13 hearing is going, I wonder if it would be necessary if
14 we would even be here on Friday at all. So rather than
15 waiting to do something ministerial at a pre-hearing
16 conference on Friday, if it's something that could be
17 done in writing and submitted, it would save us all time
18 on Friday if, in fact, we may wrap up with testimony
19 tomorrow.

20 JUDGE SCHAER: Well, I'm certainly willing
21 tomorrow if we have wrapped up testimony to cancel the
22 pre-hearing and to make those arrangements. I would be
23 delighted if we could do that.

24 MS. SMITH: Thank you, Your Honor, I think we
25 all would be.

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1 MS. ENDEJAN: And, Your Honor, what we could
2 do and what we have prepared and we'll bring tomorrow is
3 a list identifying those portions of testimony and
4 exhibits that we want to make an offer of proof on. And
5 the way to simplify it is we could perhaps just hand you
6 the list for inclusion in the record just to preserve
7 our rights.

8 JUDGE SCHAER: Okay.

9 MS. SMITH: And then I imagine that would be
10 subject to objections or argument, if any.

11 MS. ENDEJAN: Well, it's an offer of proof,
12 Shannon.

13 MS. SMITH: Oh, okay.

14 JUDGE SCHAER: I think what we're looking at
15 is as refined as we can get away with an offer of proof
16 so we don't have to -- and only in the sense that it
17 seemed that it could be done efficiently by identifying
18 the identified but not admitted exhibits and testimony
19 that Verizon may wish to appeal just by identifying
20 those and having the parties agree that if this goes to
21 appeal, those are items that could be identified as
22 having been offered subject to proof without making
23 people read them or talk about them a lot. I mean these
24 are just ideas that have been informally explored to try
25 to expedite matters.

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1 So is there anything else that we would need
2 to talk about this evening?

3 MR. KOPTA: No, thank you, Your Honor.

4 JUDGE SCHAER: We have our order of witnesses
5 for tomorrow. We're going to adjourn in this room, and
6 we're going to get together again in this room at 9:30
7 tomorrow morning. And if there's nothing further to
8 come before the Commission, then we are adjourned, we're
9 off the record.

10 (Hearing adjourned at 5:20 p.m.)

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