

1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION

3 AT&T COMMUNICATIONS OF THE)
4 PACIFIC NORTHWEST, INC.,) Docket No. UT-020406
5 Complainant,) Volume XI
6) Pages 653 to 891
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10 A hearing in the above matter was held on May
11 8, 2003, from 9:35 a.m to 7:00 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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28 Court Reporter

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

2 JUDGE SCHAER: Today is May 8, 2003, and we
3 are convened in the Commission's hearing room for a
4 hearing between AT&T versus Verizon in Docket Number
5 UT-020406, which is a complaint by AT&T challenging
6 Verizon's access charges.

7 Seated to my right are Chairwoman Showalter,
8 Commissioner Hemstad, and Commissioner Oshie. I am
9 Marjorie Schaer, and ALJ Bob Wallis and I are the
10 Administrative Law Judges assigned to this proceeding.

11 I would like to start with quick appearances
12 from the parties just letting us know your name and who
13 your client is, and so let's start with that starting
14 with you, Mr. Kopta, please.

15 MR. KOPTA: Thank you, Your Honor, Gregory J.
16 Kopta of the law firm Davis, Wright, Tremaine, LLP, on
17 behalf of Complainant AT&T Communications of the Pacific
18 Northwest, Inc.

19 JUDGE SCHAER: Thank you.

20 And then for Verizon.

21 MS. ENDEJAN: Judy Endejan of Graham and Dunn
22 for Verizon Northwest, Inc.

23 MR. CARRATHERS: Charles Carrathers of
24 Verizon Northwest for Verizon Northwest.

25 JUDGE SCHAER: Okay.

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1 And for WorldCom.

2 MS. SINGER NELSON: Michel Singer Nelson on
3 behalf of MCI WorldCom.

4 JUDGE SCHAER: And for Commission Staff.

5 MS. SMITH: Shannon Smith for Commission
6 Staff.

7 JUDGE SCHAER: Okay.

8 And my understanding is that Staff has rested
9 in its case; is that correct, Ms. Smith?

10 MS. SMITH: That's correct, thank you, Your
11 Honor.

12 JUDGE SCHAER: And so at this point, I
13 believe that we will be hearing from witnesses from
14 Respondent Verizon Northwest, and would you like to call
15 your first witness at this time.

16 MR. CARRATHERS: Thank you, Your Honor, we
17 call Dr. Carl Danner.

18

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

20 BY MR. CARRATHERS:

21 Q. Good morning, Dr. Danner.

22 A. Good morning, Mr. Carrathers.

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

25 A. It's Carl Danner, 201 Mission Street, Suite

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1 700, San Francisco, California 94105.

2 JUDGE SCHAER: Let me swear in the witness
3 before you go any farther, please.

4

5 Whereupon,

6 CARL R. DANNER,
7 having been first duly sworn, was called as a witness
8 herein and was examined and testified as follows:

9

10 JUDGE SCHAER: Your witness is sworn,
11 Mr. Carrathers.

12 MR. CARRATHERS: Thank you, Your Honor.

13 BY MR. CARRATHERS:

14 Q. Dr. Danner, did you file in this case direct
15 testimony, surrebuttal testimony, and attachments to
16 those testimonies?

17 A. Yes, I did.

18 Q. And they have been marked as Exhibits
19 T-260-R, Exhibit 261, and Exhibit T-262-R; is that
20 correct?

21 A. Yes, it is.

22 Q. Do you have any changes to that testimony?

23 A. Yes, I have two changes to Exhibit T-260-R,
24 the direct testimony. We just need to update the
25 business address. We have moved our offices since this

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1 testimony was filed. That's on page 1, lines 4 to 5,
2 and the address is as I indicated a moment ago.

3 Second, on page 8, lines 21 through 22, I
4 need to make an update to acknowledge or recognize the
5 sale of AT&T's cable operations to Comcast and just need
6 to change that to the past tense. At line 21, it says,
7 as Dr. Selwyn's client is, it should now say has. And
8 on line 22, I say, vigorously pursuing, we should make
9 that vigorously pursued.

10 Those are the changes I have.

11 Q. Thank you, Dr. Danner.

12 MR. CARRATHERS: Our witness is available for
13 cross-examination.

14 JUDGE SCHAEER: Did you wish to offer his
15 exhibits at this time?

16 MR. CARRATHERS: Oh, I apologize, yes,
17 obviously offer his exhibits into the record.

18 JUDGE SCHAEER: So offered into the record are
19 Exhibits T-260-R, Exhibit 261, Exhibit T-262, and
20 T-262-R; is that correct?

21 MR. CARRATHERS: That's correct, Your Honor,
22 thank you.

23 JUDGE SCHAEER: Is there any objection to
24 their admission?

25 Those documents are admitted.

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1 Did you have any questions for this witness,
2 Mr. Kopta?

3 MR. KOPTA: Yes, Your Honor, thank you, I
4 have a few.

5

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

7 BY MR. KOPTA:

8 Q. Good morning, Dr. Danner.

9 A. Good morning, Mr. Kopta.

10 Q. I would like to direct you first to your
11 surrebuttal testimony, which is Exhibit 262-R,
12 specifically on page 25, and even more specifically if
13 you would look at the sentence that begins at the end of
14 line 23, and in that sentence which carries over to the
15 next page, you state:

16 In contrast, Verizon's calculations are
17 based on a cost associated with
18 Verizon's actual and verifiable
19 retailing marketing activity in
20 Washington for its intraLATA toll
21 products.

22 Are you referring to Verizon's cost studies
23 with respect to the cost that you are referring to in
24 that sentence?

25 A. Yes, the studies that I believe it's

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1 Mr. Tucek has presented.

2 Q. And have you reviewed those studies?

3 A. I have spoken with Mr. Tucek about the
4 studies, I have reviewed his testimony, I have not
5 reviewed the underlying studies, I am relying on
6 Mr. Tucek.

7 Q. Okay. Also while we're on page 25, you
8 reference a New York Times article that Dr. Selwyn
9 mentioned in his testimony, and if you would take a look
10 at Exhibit 266.

11 A. I don't believe I have that.

12 Q. That should be a cross-examination exhibit.

13 A. Oh, I'm sorry, 266, yes.

14 Q. Okay. I just wanted to verify that this is
15 the article that you're referring to in your testimony.

16 A. I don't believe Exhibit 266 is a New York
17 Times article, is it? Let me see, it's an analyst
18 report.

19 Q. Well, let me direct your attention to Exhibit
20 266, about halfway down there's a little chart.

21 A. Yes.

22 Q. And is that the same chart that you have
23 reflected in your testimony on your Exhibit 262-R, page
24 25, beginning on line 7?

25 A. Yes.

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1 Q. So perhaps then Exhibit 266 is the analyst
2 report on which the New York Times article is based?

3 A. Yes, I believe it is.

4 Q. Well, before asking you some questions, and
5 they're going to be mostly directed toward the numbers
6 on lines 7 through 12 of this, of page 25 of your
7 testimony, I wanted to set up a scenario so that we're
8 kind of talking about or at least from my perspective
9 we're talking about the same thing. And I want you to
10 think of an intraLATA toll call that originates from a
11 Verizon subscriber in Everett and is terminated to a
12 Qwest subscriber in Olympia. And as I understand it,
13 the call would originate from the subscriber's location,
14 would be carried over its loop to the serving central
15 office, to the Verizon serving central office, from the
16 Verizon serving central office to the Verizon access
17 tandem. Is that accurate so far?

18 A. I presume so. I'm not sure about the access
19 tandem, but I will -- sure.

20 Q. Okay. And then it goes from the Verizon
21 access tandem to the Qwest access tandem, and then from
22 the Qwest access tandem to the serving end office to the
23 Qwest subscriber.

24 MR. CARRATHERS: Objection, Your Honor, could
25 counsel for AT&T refer to the portion of Dr. Danner's

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1 testimony he's asking these questions about?

2 MR. KOPTA: I am --

3 JUDGE SCHAER: Is your objection that this is
4 outside the scope of the testimony?

5 MR. CARRATHERS: Yes, Your Honor, unless --
6 he has not explained how it's inside the scope. That's
7 my question.

8 JUDGE SCHAER: Mr. Kopta.

9 MR. KOPTA: I am merely laying a foundation
10 using a typical intraLATA toll calling scenario.
11 Dr. Danner refers to having looked at or reviewed
12 Mr. Dye's testimony and imputation analysis in terms of
13 what are the costs that go into providing intraLATA
14 toll, so I'm just simply setting up an intraLATA toll
15 call so that we can talk about what the facilities costs
16 are.

17 MR. CARRATHERS: That's fine, Your Honor,
18 thank you.

19 JUDGE SCHAER: Go ahead, please.

20 BY MR. KOPTA:

21 Q. Okay, so we've got the scenario set up where
22 we've got an intraLATA toll call, and the portion that I
23 want to focus on is the piece between the Qwest access
24 tandem and the Verizon access tandem. Now when an
25 unaffiliated facilities based interexchange carrier

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1 provides the toll portion of that call, do you have an
2 understanding of what the facilities are that they would
3 use to connect the Verizon tandem with the Qwest tandem?

4 A. Well, they could use any number of
5 facilities. I mean I expect it would be fiber.

6 Q. Well, let me ask it more specifically. Am I
7 correct that a facilities based interexchange carrier
8 would have transport from the Verizon access tandem to
9 its switch and then switch that call and route it over
10 transport facilities to the Qwest access tandem?

11 A. Well, if transport was needed, I mean if
12 they're not collocated, right.

13 Q. That's a possibility certainly. But one way
14 or the other, you would have transport and switching
15 that would be provided by the facilities based
16 interexchange carrier as part of that call, correct?

17 A. I think so, yes.

18 Q. Okay. Now when Verizon provides that call,
19 does Verizon include any additional switching?

20 A. I'm not sure what you mean include any
21 additional switching. You mean perform switching?

22 Q. Well, they would perform switching at the
23 access tandem, correct?

24 A. Yes.

25 Q. Would there be any additional switching

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1 providing by Verizon before it hits the Qwest access
2 tandem?

3 A. I'm not sure. I don't think so.

4 Q. Okay.

5 A. No.

6 Q. But there would be additional transport
7 between the Qwest access tandem and the Verizon access
8 tandem, wouldn't there?

9 A. Additional transport, I mean the call does
10 need to be transported. Are you talking about physical
11 facility or rate element?

12 Q. I'm talking about physical facility between
13 the Verizon access tandem and the Qwest access tandem.

14 A. Yes, it would have to be transported.

15 Q. And Verizon would incur a cost to either
16 construct or obtain that facility, would it not?

17 A. Yes, there would be some cost associated with
18 that, although I think it's been mentioned before, these
19 costs are fairly low these days, but yes.

20 Q. Is that a cost that's included in the price
21 floor that Verizon has calculated for toll services?

22 A. I'm not sure. I think Mr. Dye could tell you
23 that.

24 Q. Well, since you have reviewed and endorsed
25 his testimony and his imputation analysis, I thought you

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1 would know.

2 A. I don't know whether that specific scenario
3 -- how that specific scenario is accounted for in his
4 analysis.

5 Q. Well, whether it is or not, is it your
6 opinion that it should be included?

7 A. Mr. Dye's analysis needs to include the
8 incremental costs of Verizon's toll services. If this
9 scenario is a significant contributor to their
10 incremental costs, it would have to -- those costs would
11 have to be included in the analysis.

12 Q. Okay. Now directing your attention to the
13 chart that we were just discussing that's on page 25 of
14 Exhibit 262-R, there are a list of costs for interstate
15 toll services. On line 7 you have an access charge, a
16 one-way, line 8 is outside plant upgrade, line 9 is
17 outside plant maintenance, and line 10 is switched
18 software upgrade, and line 11 is billing and customer
19 service. Is it your understanding that or do you have
20 -- strike that.

21 The outside plant upgrade and the outside
22 plant maintenance, would those costs be related to the
23 transport between the access tandems that you and I were
24 just discussing?

25 A. I don't regard these figures as reliable, so

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1 I don't know whether they would relate or not. The
2 analyst report says, here are statistics on long
3 distance we got yesterday from industry contacts. I
4 don't know who the analyst is. I don't see any
5 substantial -- any analysis at all in this document.
6 The only purpose of my citing it was to impeach
7 Dr. Selwyn's claim that it created a 3 cent per minute
8 retail marketing cost.

9 Q. Well, with that understanding, since you did
10 interpret what you thought billing and customer service
11 means, I'm asking you for your interpretation of what
12 you think outside plant upgrade and outside plant
13 maintenance means.

14 MR. CARRATHERS: Objection, Your Honor,
15 Dr. Danner just explained that this figure was or in
16 this analyst report was the foundation for Dr. Selwyn's
17 3 cent billing and marketing figure that we discussed
18 yesterday, and the only reason that Dr. Danner used it,
19 as he stated, is to show that when you look at the
20 underlying data it doesn't support Dr. Selwyn's claim.
21 So clearly that question is outside the scope of
22 Dr. Danner's testimony.

23 (Discussion on the Bench.)

24 CHAIRWOMAN SHOWALTER: Can you restate your
25 question.

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1 MR. KOPTA: Sure. My question was, in light
2 of Dr. Danner correlating the billing and customer
3 service on line 11 of page 25 of Exhibit 262-R with the
4 figure that Dr. Selwyn gave for retail marketing costs,
5 I was asking Dr. Danner what his interpretation is of
6 what the costs that would be associated with outside
7 plant upgrade and outside plant maintenance, which are
8 on lines 8 and 9, whether those would correspond to the
9 transport section between the two access tandems that he
10 and I were discussing before.

11 MR. CARRATHERS: And again, Your Honor, I
12 would object to that question. Dr. Danner in fact has
13 answered it. He said, look, the only point why I offer
14 this is that is because Dr. Selwyn relied on it, he
15 claimed that that supported his analysis of a 3 cent
16 marketing cost. Dr. Danner pointed out that that's not
17 true as he read the report, and AT&T has offered no
18 evidence to suggest otherwise. And if Dr. Selwyn is
19 going to rely on this, then I suggest, Your Honor, he
20 should have gone through it and explained what he
21 thought it meant. And again, just to repeat my
22 objection, Dr. Danner has already answered and explained
23 the relevancy of this.

24 JUDGE SCHAER: The objection is overruled.
25 It appears that this testimony and what's been said so

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1 far indicate whether or not -- will lead to information
2 about whether or not this supports Dr. Danner's position
3 that this information impeaches what Dr. Selwyn had to
4 say. And if we don't know his understanding of these
5 figures, it's hard to understand whether that does or
6 does not impeach.

7 I have just one question too, I note that
8 there's a Footnote 12 on this page, and it appears to go
9 to Exhibit 266. Are those the same thing?

10 MR. KOPTA: I believe they are, and that may
11 have been a better question in terms of whether it was
12 actually the New York Times article or the underlying
13 report. My understanding is that the document that's
14 cited in Footnote 12 is the same document that is now
15 marked for identification as Exhibit 266, and I believe
16 Dr. Danner confirmed that, but we can certainly --

17 JUDGE SCHAEER: It might be helpful to the
18 record to know in discussing this material what that
19 relationship is, please.

20 MR. KOPTA: I'm happy to ask that.

21 BY MR. KOPTA:

22 Q. Dr. Danner, is the document in Exhibit 266
23 the same document that you have cited in Footnote 12 on
24 page 25 of your surrebuttal testimony?

25 A. Yes, it is.

0679

1 Q. Thank you. You probably no longer remember
2 the question that was pending, so I will repeat it. Let
3 me make it simpler. On lines 8 and 9 of page 25 of your
4 surrebuttal testimony are the terms outside plant
5 upgrade and outside plant maintenance. Do you have an
6 understanding of what costs those terms would represent?

7 A. No, Mr. Kopta, I don't, because as I
8 indicated before, this is an extremely superficial
9 analysis, and I don't really have any way of telling
10 what the analyst meant except to say that those look
11 like they are facilities related costs of some kind,
12 which clearly don't relate to retail marketing.

13 Q. And they also would not relate to access,
14 wouldn't you assume, since access is one of the items
15 that's listed on here?

16 A. Perhaps not. I mean that might be a
17 reasonable presumption.

18 Q. If you would please turn to page 26 of your
19 surrebuttal testimony.

20 A. (Complies.)

21 Q. And on line 15, you have a reference to a
22 figure of \$75 with a footnote, Footnote 13, that
23 references a Credit Suisse First Boston report. Do you
24 see where I'm referring to?

25 A. Yes, I do.

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1 Q. Could you look at Exhibit 265.

2 A. Yes.

3 Q. Is the document that has been marked for
4 identification as Exhibit 265 the document that you cite
5 in Footnote 13 on page 26 of your surrebuttal testimony?

6 A. Yes, it is.

7 Q. If you would please in that document turn to
8 page 8 of Exhibit 265.

9 A. Yes, I have that.

10 Q. And specifically in the paragraph that's
11 marked Paragraph 3, the second sentence states, and I
12 quote:

13 In 2002, we estimate AT&T's cost per
14 gross LD customer addition at \$75 with
15 annual churn of approximately 30%.

16 A. I see that, yes.

17 Q. Is that the source of your \$75 in your
18 surrebuttal testimony?

19 A. Yes.

20 Q. Would you define for me what your
21 understanding of the term churn is in that sentence?

22 A. Churn refers to the proportion of customers
23 that you lose in a year.

24 Q. So in the space of, if we use 30%, three
25 years and four months, there's at least a theoretical

0681

1 complete turnover of customer base?

2 A. Yes.

3 Q. Now if you would please look in the same
4 document on page 3.

5 A. (Complies.)

6 Q. And I'm referring specifically on this page
7 to Exhibit 3, which is down near the bottom. It's a
8 little chart with years, then average LDMOU per
9 subscriber per month and growth percentage. Do you see
10 my reference?

11 A. Yes, I do.

12 Q. And by average LDMOU per subscriber per
13 month, do you understand that as being the number of
14 minutes that an average subscriber would have per month?

15 A. Yes, although it looks like they have cited
16 the interstate minutes here, but anyway yes.

17 Q. Okay. And for 2002 through 2005, well, under
18 2002 the average they have here is 85, for 2003 it's 73,
19 for 2004 it's 66, and for 2005 it's 63. Do you see
20 that?

21 A. Yes, I do.

22 Q. Okay. And this chart is derived from an FCC
23 report based on this note here; is that correct?

24 A. Yes.

25 Q. Okay. So for ease of reference, if we're

0682

1 talking about a three year period between 2002 and 2005,
2 can we just say for rough justice that it's about 73,
3 the number in 2003?

4 A. From that table, yes, but I believe there is
5 a significant -- the volumes of actual toll and long
6 distance calls that customers make are larger than that.
7 I was looking at them yesterday in the trends report.

8 Q. Okay. Well, I'm just basing this on the
9 report that you provided, so.

10 A. Yes. I'm just saying I was looking at the
11 underlying report that they cite just yesterday.

12 Q. Okay. Well, if we're using an average of 73
13 minutes per month for the three years between 2002 and
14 2005, would you accept subject to your check that if you
15 divide \$75 by 73 minutes of use times 40 months, which
16 is three years and four months, that the resulting per
17 minute of use amount would be \$.0257 or roughly 2.6
18 cents?

19 A. I will have to ask you to read me that again
20 so I can write this down and actually check it.

21 Q. Sure, \$75 divided by 73 times 40.

22 A. I don't have a calculator with me. I will
23 accept subject to check that your math is correct if you
24 could read me the answer, although again this is a stand
25 alone calculation of costs, which has nothing to do with

0683

1 imputation.

2 Q. It's 0.0257.

3 A. So you're representing that that would be
4 AT&T's cost?

5 Q. Based on the numbers that are in this report,
6 that would be the amount per minute of use for
7 advertising and promotions.

8 A. Okay.

9 Q. And that number doesn't include billing and
10 customer care according to this report, does it?

11 A. No, I don't believe it would.

12 Q. Okay. So if you turn to page 5, and in the
13 first full paragraph that's on page 5, it's about
14 halfway down, there is a 2 with a paren after it then
15 about almost dead center in the middle of that
16 paragraph, and then after that it says:

17 Avoided billing and customer care costs
18 which we estimate at \$3 per subscriber
19 in 2002 falling 10% a year as AT&T adds
20 increased automation, et cetera.

21 A. Yes, those would be their cost estimates for
22 AT&T, which is I guess in this scenario not an
23 integrated provider.

24 Q. And if we go back to our chart on page 3,
25 which is Exhibit 3 on that page, and we look at 2002, we

0684

1 have a number of minutes that they assume or that they
2 include there as 85; is that correct?

3 A. The 2002 number there is 85.

4 Q. Right. And once again, I will ask you to
5 check my math, but if you divide \$3 by 85 times 12, the
6 resulting product is 0.0353.

7 CHAIRWOMAN SHOWALTER: Counsel, can you
8 identify what units you're talking about? I had the
9 same question earlier, but I didn't get to it fast
10 enough. But you said dollars, but I think you meant to
11 say minutes of use, and then I'm not sure what the units
12 were.

13 MR. KOPTA: Yes. What we're doing here is
14 we're taking \$3, which is the per subscriber cost for
15 billing and customer care in this report, and dividing
16 it by the total number of minutes in a year in the year
17 2002 based on the figures in this report. So if you
18 multiply 85, which is the monthly minutes, times 12 to
19 get the yearly minutes and then divide \$3 by that
20 amount, the result is approximately 3.5 cents.

21 CHAIRWOMAN SHOWALTER: Is it an absolute
22 number of 3.5 cents, or is it per something?

23 MR. KOPTA: 3.5 cents per minute of use since
24 you're dividing a cost by a number of minutes of use.
25 And it was the same thing for the prior calculation. We

0685

1 were taking the cost, which is \$75, and dividing it by
2 the total minutes of use over a period of three years
3 and four months, which is represented by the 30% churn
4 you would have. You can only expect to have a customer
5 based on the 30% churn of three years and four months,
6 so then the resulting calculation is approximately 2.6
7 cents per minute of use.

8 Excuse me, I'm checking my math, or
9 Dr. Selwyn is checking my math.

10 MR. CARRATHERS: Your Honor, if I may
11 suggest, yesterday there were some calculations we had
12 asked Staff or other parties to make, and they said,
13 well, if it's in the record you can make the
14 calculation, rather than do it now, just, you know, do
15 it in your brief if, in fact, the calculation can be
16 derived from what's in the record. Can we just do that?

17 MR. KOPTA: That's fine, I just did not want
18 to mislead Dr. Danner by asking him to check a number
19 that is incorrect if I put a decimal point in the wrong
20 place, but certainly it can be calculated based on the
21 exhibit.

22 JUDGE SCHAEER: If this is not a difficult
23 calculation, perhaps even you can meet with Dr. Danner
24 briefly over the next break and give him the information
25 he would need to check this. That's another way we

0686

1 sometimes deal with subject to check, because the
2 purpose of subject to check is to kind of keep things
3 moving and let the math be done somewhere else.

4 MR. KOPTA: All right.

5 JUDGE SCHAEER: Okay.

6 MR. KOPTA: And actually that was all that I
7 had.

8 BY MR. KOPTA:

9 Q. One thing I wanted to follow up on in one of
10 your responses, Dr. Danner, in terms of whether the
11 table in Exhibit 3 on page --

12 A. I'm sorry, Exhibit 3?

13 Q. Well, I'm talking about the document is
14 Exhibit 265.

15 A. Yes.

16 Q. And on page 3 there is an Exhibit 3.

17 A. Yes.

18 Q. And you were stating that you were looking at
19 the FCC underlying report, and you had some question as
20 to whether the average long distance minutes of use per
21 subscriber per month figures were accurate in this
22 report. Do you recall saying that?

23 A. Yes.

24 Q. Do you have a copy, since you were reviewing
25 this this morning, of Table 15.2 in the trends and

0687

1 telephone service --

2 A. No, I was looking at a different section of
3 the report, the dial equipment minutes in table section
4 11, and I don't have it. I was looking at it on the
5 Internet.

6 Q. Okay. Would you accept subject to check that
7 on Table 15.2, which is titled average residential
8 monthly toll calling, that, and we'll just use an
9 example, for the year 2000 for all types of toll
10 calling, intraLATA intrastate, interLATA intrastate,
11 intraLATA interstate, interLATA interstate,
12 international, and others with 1, the total was 116,
13 which if you look on page 3 it's an average LDMOU
14 subscriber per month in Exhibit 3 under 2000 it's the
15 same figure?

16 A. I would accept that subject to check, yes.

17 MR. KOPTA: Thanks. Now that's all I have.

18 JUDGE SCHAER: Okay.

19 Does WorldCom have questions of Dr. Danner?

20 MS. SINGER NELSON: WorldCom does not have
21 any questions, thank you, Judge.

22 JUDGE SCHAER: All right.

23 Does Staff have any questions?

24 MS. SMITH: No, thank you, Your Honor.

25 JUDGE SCHAER: All right.

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1 Are there any questions from the
2 Commissioners?

3 CHAIRWOMAN SHOWALTER: Well, one follow up
4 and then another question.

5

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

7 BY CHAIRWOMAN SHOWALTER:

8 Q. There just was a discussion of AT&T's costs,
9 I believe. Am I right there?

10 A. Yes, yes, you are.

11 Q. In your view, is that relevant to whether
12 Verizon is or is not charging appropriate access
13 charges?

14 A. Your Honor, it is not, and it is not even a
15 close call. An appropriate imputation analysis
16 considers the incremental costs of the company that is
17 providing the service plus the access charges in
18 question. It's a settled issue. It's in Dr. Baumol's
19 book, it's in testimony that AT&T has provided to this
20 Commission, it is a point of settled doctrine in
21 economics. Dr. Selwyn is wrong in telling you that you
22 should be considering AT&T's stand alone costs.

23 Q. Then if you could turn to Exhibit 260-R, your
24 direct testimony, page 10, and I'm looking at line 16,
25 your reference to what you say is the Commission's

0689

1 express finding in the merger order. And I'm selecting
2 this out as one of many references in Verizon's
3 testimony of various of its witness that appears to rely
4 rather heavily on prior orders of this Commission as
5 apparently somehow conclusive on some of the issues at
6 issue in this hearing. My question to you is, isn't it
7 the case that the only way rates change over time is if
8 the company or the Commission or a complainant brings an
9 issue, brings a matter before the Commission that causes
10 a change to be made compared to the rates compared --
11 contained in a prior order?

12 A. That's correct, Madam Chairwoman. However,
13 look at the posture we are in in this case. AT&T has
14 shown up and basically said, we don't find it convenient
15 to pay these rates any more for a variety of reasons,
16 many of which are just inappropriate or wrong. There is
17 no price squeeze, this imputation argument is incorrect.
18 The reliance on, in this instance in my testimony, the
19 reliance on the prior order is responding to
20 Dr. Blackmon's claim that the mere fact of a difference
21 between Qwest's access charges and Verizon access
22 charges contributes to making them unreasonable. And
23 the point I establish here is that if that were the
24 case, the Commission could not have entered the merger
25 order, because in the merger order the Commission said

0690

1 the rates were just, reasonable, and sufficient, and, of
2 course, they were different than Qwest's.

3 Q. Well, I guess I took his testimony to be that
4 Qwest's access charges as an indicator of, well, whether
5 Verizon's current access charges are currently
6 unreasonable or not. In other words, in this
7 proceeding, we have a specific complaint about Verizon's
8 access charges, and we are deliberating that here. And
9 it seems to me as if the company is trying to avoid to
10 some degree engaging directly in that question by
11 referring to or alluding to prior proceedings, which I
12 would think are an indicator of something, but not
13 necessarily dispositive of the issue. Isn't really the
14 question, are there different facts today, or has a
15 different theory been raised, or are somehow
16 circumstances changed, one of those issues, one of or
17 all, that require a different determination than we
18 either explicitly or implicitly made earlier, and isn't
19 that just the nature of regulatory process?

20 A. Well, I have to say, Madam Chairwoman, this
21 whole posture confuses me somewhat. When I was at the
22 California Commission, and I apologize for citing to
23 that experience because I know it's not exactly on
24 point, but for someone to come in and file a complaint
25 against a rate, they bear the burden of proof and they

0691

1 have to show that the rate is not in compliance with
2 Commission rules or orders.

3 Q. Well, isn't the question they have -- they
4 have the burdon to show that the rate in question fails
5 on some test. It might be it's not fair, just, and
6 reasonable, there might be a specific statute that it
7 fails, it might also be a prior order. But just because
8 the rate was once approved in a prior order I don't
9 think could be dispositive, because otherwise how would
10 we ever -- how would anything ever change?

11 A. Well, you would do general rate making of
12 some form, which is not, as I understand, and we have
13 had a big, you know, paper fight in this proceeding
14 about the nature of the proceeding. Perhaps I can
15 recite my understanding of the argument for why these
16 prior orders are dispositive if that would be helpful.

17 Q. Go ahead.

18 A. You know, we start with the Commission's
19 policy that a substantial portion of the company's costs
20 are to be recovered through access charges. That's a
21 longstanding policy that existed. And, of course, there
22 have been a lot of arguments about that. You have
23 decided how you want to take that. We had the merger
24 order that set the access charges adjusted to a
25 reasonable level, and then we have the access charge

0692

1 rule. And the access charge rule says that the company
2 is able -- must create an ITAC in the manner that you
3 have described and is then permitted to shift rates onto
4 originating access to make up for that after a finding
5 by the Commission that the revision is consistent with
6 the rule, in the public interest, and that the net
7 effect is not an increase on customers. We also have an
8 ongoing obligation of the company to provide an
9 imputation analysis for changes in its toll rates, which
10 it has done. We have an ongoing obligation to the Staff
11 to verify that those changes are appropriate, that those
12 rates are appropriate. And as I think I understand we
13 learned the other week, they are certainly capable of
14 expressing their concerns when they believe there may be
15 a problem with the rate. So we take the rates to the
16 Commission to say if they're just and reasonable. We
17 follow the access charge rule to revise them in the
18 manner the Commission has provided. The Commission
19 finds those revisions are in the public interest. The
20 toll rates are filed with imputation studies, which the
21 Staff is obliged to review and has raised no objection
22 regarding. And AT&T shows up and says, well, we just
23 don't want to pay these any more. I find that hard to
24 fathom.

25 Q. But you agree, don't you, that if the access

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1 charges actually violate a statute, regardless of Staff
2 behavior or a rule or even for that matter a Commission
3 order, that if AT&T can carry that burden of proof that
4 the result has to be a change so as to comply with the
5 law? I'm not asserting one way or the other if that is
6 the case, but do you agree with that?

7 A. Yes, but the arguments AT&T is raising here,
8 as I believe have been shown or have been argued, I'm
9 not sure if they heard it, but the same arguments they
10 raised for years. Sure, there are some changes in
11 market circumstances, and but this Commission has heard
12 this discussion before. I sat here five years ago at a
13 workshop that Dr. Blackmon helped arrange and discussed
14 with the Commission principles of pricing and how to
15 recover costs in a way that made more sense, that was
16 different from what you were doing and are doing. But
17 in a situation like this where this complaint is filed
18 against rates that were established by the Commission,
19 charged in accordance with your rule, and the company
20 is, you know, vastly underearning its authorized rate of
21 return, to suggest that AT&T can just stop paying them
22 and with no counteravailing action, again, I just -- I
23 can't believe it.

24 Q. Well, then but do you agree that the question
25 of whether the access rates are or are not lawful is

0694

1 separate factually from the question of whether the
2 company is or isn't making an authorized rate of return
3 or whether the loss of access revenue would cause an
4 unacceptably low rate of return, that is that we can --
5 that we have to, I don't know about have to, but that we
6 are able to determine the question of the
7 appropriateness of the access charge independently of
8 determining those other questions?

9 A. Yes.

10 Q. Whether or not the remedy or the orders that
11 we might issue, that there may be some joining there?

12 A. Yes, and I agree and -- although at the same
13 time, the circumstances that have been cited for the
14 proposition that they're unlawful are in part false and
15 in part change perhaps only slightly in degree from
16 circumstances that existed before when you found that
17 they were lawful.

18 Q. And, of course, AT&T brought this complaint
19 and has its theory and arguments, but once brought, the
20 Staff has come in with a somewhat different approach.
21 Do your arguments go to the Staff's evidence as well as
22 AT&T's, because they aren't -- they are not arguing the
23 same theories that you say AT&T has been presenting
24 throughout the years?

25 A. No, to its credit, the Staff doesn't bite on

0695

1 the, you know, canard of the price squeeze, so I
2 appreciate that. Staff offers policy arguments as to
3 why lower access charges are better. And assuming that
4 you're not doing it through a taking or not doing it
5 through just confiscating the money from the phone
6 company, I agree with those arguments. When you design
7 rates, lower access charges are better provided that the
8 result is compensatory to the company. Because the
9 first principle is that we have to have a company to
10 regulate, and if you don't pay the long run economic
11 costs of the telephone business, at some point you're
12 going to have a problem with that, so. But given that
13 and assuming that, yes, I think the Staff makes some
14 good arguments. And again, Dr. Blackmon and I didn't --
15 I don't think we had any disagreements when we sat here
16 five years ago and talked about this.

17 Q. Then on that train of thought, doesn't that
18 lead to a determination here in this proceeding or this
19 hearing whether the access charges are or are not
20 appropriate, and if they are inappropriate trigger a
21 secondary proceeding to determine what to do about it,
22 including allowing the company if it wants to say they
23 need to recover the revenue somewhere else?

24 A. Yes, I would agree that proceeding to a
25 secondary proceeding where you would say, okay, we want

0696

1 to reduce access charges to some level and we'll accept
2 revenue neutral offsets to those, I think that would be
3 perfectly appropriate.

4 CHAIRWOMAN SHOWALTER: I have no further
5 questions, thank you.

6

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

8 BY COMMISSIONER HEMSTAD:

9 Q. First, just pursuing a point of your
10 discussion with Chairwoman Showalter, I take it you
11 would agree that in an order approving a merger
12 concluding that the rates are overall just and
13 reasonable, have to be a macro determination, wouldn't
14 it, not a determination of every single element of every
15 aspect of the company?

16 A. Commissioner, I think I would respectfully
17 disagree. My understanding is that this Commission,
18 like every Commission of which I am aware, has an
19 ongoing obligation to assure that all rates are just and
20 reasonable. I don't believe you can enter an order such
21 as the merger order and subsequently find that rates
22 that the order approved were not individually in every
23 case just and reasonable.

24 Q. Well, that's an interesting assertion, and
25 I'm not sure I agree with it, but in any event --

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2

E X A M I N A T I O N

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BY CHAIRWOMAN SHOWALTER:

4

Q. Well, then take the hard question. Supposing

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there had been a settlement and we found rates, every

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single one of them, fair, just, and reasonable, and 12

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months later a company comes in and says, you forgot to

8

look at whether these are anticompetitive and whether

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they violate a statute. And supposing we hadn't

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deliberated that issue, and supposing that the company,

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the complainant lays out fairly compelling evidence why

12

the rates that we had just found fair, just, and

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reasonable in fact aren't because we forgot or we did

14

not deliberate a very important aspect. Wouldn't the

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complainant be entitled to that, and wouldn't we have an

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obligation to change the rates if, in fact, we found

17

that they violated the law?

18

A. Yes, at that point, you would, I would agree,

19

but you would not have the ability, as I understand it,

20

to go back retroactively.

21

Q. Yes, that may be.

22

A. Yes.

23

24

25

0698

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

2 BY COMMISSIONER HEMSTAD:

3 Q. First I'm looking at page 7 of your direct
4 testimony, T-260-R, and here you're discussing the issue
5 of the unpersuasiveness of predatory pricing, and I
6 understand there's plenty of contemporary economic
7 literature discussion about that issue that I think most
8 of us are probably familiar with. I am, however,
9 interested in your footnote, the very end of your
10 Footnote Number 2, when you say there are good reasons
11 to believe that successful predatory pricing would be
12 even more difficult for a regulated telephone company to
13 accomplish. I'm curious about that. I would have
14 thought it would be the other way around. The premise
15 of the unpersuasiveness of predatory pricing argument is
16 that surely that there is opening competitive access to
17 the market. And the very fact here if you say, I'm
18 perhaps misusing the term market here, but if you're
19 looking at the issue as all of the network market of
20 local and long distance, the fact that part of it is a
21 monopoly or monopolized, doesn't that make it easier,
22 not harder?

23 A. Well, Commissioner, I guess there's a lot to
24 say about that. The simple answer is that you're here
25 as the Commission and I can explain things that you do

0699

1 that make it harder. I would also point out that this
2 is not a monopoly market by any means. In fact, I was
3 struck by Dr. Selwyn yesterday on the one hand calling
4 Verizon a monopoly and on the other hand bemoaning
5 competition from wireless, which is competition for
6 access. He talked a great deal about how wireless
7 companies don't pay access charges. They are providing
8 access. It is not a monopoly market at all. But in any
9 case, your question addressed why I said that in the
10 footnote, and there are several reasons. First of all,
11 this Commission regulates the company. Complaints can
12 be brought here, you require that access be provided,
13 you specify the terms in tremendous detail, you specify
14 the prices. These are things that don't happen in
15 unregulated markets. Verizon's toll earnings are
16 included in their regulated returns.

17 Q. I understand, but we do all of that because
18 we are a relatively poor surrogate substitute for a
19 market, and we do it because the environment is, if not
20 a perfect monopoly, has significant monopoly elements,
21 and so we struggle with that.

22 A. That's a fair comment. At the same time, as
23 I'm sure you would recognize, recoupment is a linchpin
24 of a predatory scenario. How does Verizon recoup? You
25 regulate their rate of return. Their earnings from toll

0700

1 are included in that. They need to get substantial,
2 very substantial above market returns and keep them to
3 possibly make this scenario pay. But you would just
4 take them away, and they would be evident in the
5 earnings reports that Verizon files. So I guess what
6 I'm suggesting is you can make statements and instruct
7 you to think about the market as it might behave in the
8 absence of regulation, but you are here, and your
9 activities and even the information you collect make
10 this ever so much harder to imagine that this remote
11 scenario would even would occur.

12 Q. Well, again, an interesting discussion that
13 probably need not be pursued further.

14 Looking at your surrebuttal, page 11, here
15 you have a discussion of both Dr. Blackmon and
16 Dr. Selwyn's positions that access should be I think
17 reduced cost. I'm trying to summarize here from memory.
18 Were you here yesterday with the cross-examination of
19 Dr. Blackmon?

20 A. Yes.

21 Q. I believe you heard his testimony to the
22 effect that he disagreed with Dr. Selwyn and that access
23 charges should not be reduced to cost or claimed that
24 they should be priced at a level above long run
25 incremental cost. So do you stand by your statement, or

0701

1 would you revise your statement with regard to the
2 position of the Staff here?

3 A. Well, I guess first when we say cost, and you
4 did this appropriately, we need to be specific as to
5 what costs we're talking about. Long run incremental
6 cost is a calculation, of course. And I would agree
7 with Dr. Blackmon that recovering some contribution in
8 access charges is appropriate, although not quite for
9 the same reasons he would say. I think it's because
10 phone companies need markups to stay in business, and I
11 don't think the case has been made that zero markup on
12 that particular service is appropriate.

13 What I was responding to here was a kind of
14 inconsistent standard that was applied to looking at
15 these different services. On the one hand they're
16 looking specifically and uniquely at access and saying,
17 look at that, look how much extra money comes in in
18 access, that's too high. So I responded and said, well,
19 it's understandable why it's high, it's because basic
20 service is low. That's the simple equation the
21 Commission has always followed. They said, oh, no, no,
22 no, no, you can't just look at basic service, you've got
23 to throw all this other stuff in there, you've got to
24 throw in vertical services and you've got to join
25 access. Well, gee, you know, if the appropriate picture

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1 is the whole customer, then access charges aren't too
2 high because they recover some of the costs of serving
3 the whole customer. If the appropriate picture is the
4 individual services, then you have to concede my
5 counterpoint that basic service prices are too low.

6 But we sort of, you know, and I don't want to
7 make too much of this exchange, but I mean we kind of
8 had them Dr. Blackmon and I guess Dr. Selwyn were kind
9 of taking one perspective on the one side but a
10 different perspective on the other side, and I was just
11 kind of saying, well, gee, let's use the same
12 perspective on both sides.

13 Q. All right. Then going on at lines 16 and 17
14 or 15 to 17 on page 11, you say, given this, Verizon's
15 current access charges are just and reasonable and
16 sufficient because they recover their LRIC, and they
17 provide a contribution to other costs. It's not your
18 position, is it, that because they recover the long run
19 incremental costs and provide a contribution to other
20 costs that at any level they would be just and
21 reasonable?

22 A. Well, here we have a problem of perspectives,
23 and I will -- short answer is no, I don't think they
24 would be just and reasonable at any level. As I think
25 you may know, I'm one of the many people, including most

0703

1 economists, who would tell you that the cost of the loop
2 is a cost of network access, the incremental cost of the
3 loop is an incremental cost of the network access. I
4 know this Commission has considered that question and
5 has decided to go the other way and allocate the loop
6 among different services or consider it a common cost,
7 and I think that's one of the sources of the confusion
8 in this proceeding. But my point is if you take the
9 position that the loop is a common cost, then you can
10 look at access charges and say they're recovering part
11 of that common cost. In fact, I believe if I remember
12 properly the original access charge order of 1985 talked
13 about recovering a quarter of the loop costs as a policy
14 from access charges. So that's the perspective that I
15 was addressing there.

16 Q. And the point as a follow up to your
17 discussion with the Chair, setting aside prior orders
18 just to get to the conceptual point, the issue is always
19 present as to whether or not access charges are too high
20 or whether they are appropriate, so even though they
21 exceed long run incremental cost?

22 A. Yes, Commissioner, and that's true of every
23 other rate as well.

24 COMMISSIONER HEMSTAD: That's right, thank
25 you, that's all I have.

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E X A M I N A T I O N

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BY COMMISSIONER OSHIE:

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Q. Dr. Danner, just perhaps a question on generally your belief and/or your opinion, let's put it that way, of whether as a general rule, if you will, and application that lower access charges would improve the competitive environment for toll services for Verizon and its competitors?

10

11

12

13

A. Commissioner, again, provided that we're allowing Verizon to recover its economic costs as a company, yes, I think that lower access charges would -- are consistent within a better competitive environment.

14

COMMISSIONER OSHIE: Thank you.

15

JUDGE SCHAER: Anything further?

16

17

18

We're going to take our morning break at this time. It's a quarter to 11:00, and please be back promptly at 11:00. We're off the record.

19

(Recess taken.)

20

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JUDGE SCHAER: Let's be back on the record after our morning recess. At this point, I believe the parties were going to report back on the subject to check matters that they were looking at clarifying. Who is going to take the leading role on that, is that you?

25

MR. KOPTA: I can, I also have a couple of

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1 questions based on the Commissioners' questions.

2 But at least with respect to one calculation
3 that I asked Dr. Danner to check based on Exhibit 265,
4 the \$3 billing and customer care cost, I was asking him
5 to check a calculation based on that as being an annual
6 figure when it's used as a monthly figure in this
7 report. So what I would ask him to check is that \$3
8 divided by 85, which is the total number of minutes of
9 use in a month in 2002, equals 3.53 cents.

10 THE WITNESS: Yes, I'm not actually sure if
11 it's a monthly or yearly figure. It may be one or the
12 other, but that calculation is correct, \$3 over 85 is
13 .0353.

14 MR. KOPTA: Okay. And I don't know whether
15 you have -- you mentioned something about having checked
16 the other ones, or have you not had the opportunity?

17 THE WITNESS: Well, there was another
18 calculation you suggested, which was \$75 over 73 times
19 40, I confirmed that that was 0.0257, as you suggested.

20 MR. KOPTA: I think that clears up those
21 particular calculations. Should I go ahead and ask my
22 follow-up questions?

23 JUDGE SCHAEER: Let me confirm, is there
24 anything further from the Commissioners?

25 Okay, then let's go ahead with your follow-up

0706

1 questions. Go ahead, Mr. Kopta.

2 MR. KOPTA: Thank you, Your Honor.

3

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

5 BY MR. KOPTA:

6 Q. Dr. Danner, in response to a question from
7 the Chairwoman, I believe you stated that Dr. Selwyn was
8 wrong in saying that the Commission should consider
9 AT&T's costs. AT&T or Dr. Selwyn has never advocated
10 that the Commission use AT&T's costs in this proceeding,
11 has it?

12 A. You know, you might be right in the sense
13 that he has advocated using a stand alone long distance
14 carrier's cost, which is equally incorrect. I may have
15 misspoke in saying AT&T's costs, but it's incorrect
16 either way.

17 Q. Well, and you also responded to the
18 Chairwoman's question basically saying that it's your
19 firm belief that we should use Verizon's costs; is that
20 correct?

21 A. Verizon's incremental cost plus access
22 charges, yes.

23 Q. And if the Commission for whatever reason
24 should find that Verizon's costs that are presented on
25 the record in this case are not reliable, what costs

0707

1 should the Commission use under those circumstances?

2 A. You're referring to Verizon's incremental
3 costs?

4 Q. Yes, the cost information that Verizon has
5 presented on the record in this case.

6 A. Well, I guess you would have a number of
7 avenues. You could further investigate Verizon's costs.
8 That would be the appropriate thing, ask them to confirm
9 and supply additional information. You could -- I mean
10 that's what -- that would be the right thing to do. You
11 would not want to go to stand alone costs though, to,
12 you know, stand alone long distance company.

13 Q. In response to a question from Commissioner
14 Hemstad, I believe you stated that wireless carriers are
15 providing access. Do you recall that statement?

16 A. Yes.

17 Q. Were you saying that wireless carriers
18 provide a substitution for access to wireline Verizon
19 subscribers?

20 A. Yes, wireline Verizon subscribers have cell
21 phones in their pockets that they can make and receive
22 long distance calls, which is used -- providing an
23 access service.

24 Q. Well, but if a landline subscriber of
25 Verizon's has a telephone number assigned to them by

0708

1 Verizon for wireline service and Qwest or some other
2 customer wants to use AT&T to provide long distance
3 service, AT&T can't use a wireless carrier to terminate
4 the call to that landline number, can it?

5 A. Well, AT&T could have before it spun off its
6 wireless operation. The point is that there is
7 competition for these access services. Dr. Selwyn went
8 on quite a long time about the pressure that is being
9 placed on the market by this. If wireline access were a
10 monopoly, it wouldn't matter what wireless carriers did.
11 Why would it be of any concern?

12 Q. Well, that's interesting, don't wireless
13 carriers pay Verizon to terminate calls for them?

14 A. Yes.

15 Q. If they can act as a substitute, why would
16 they need to pay Verizon for access?

17 A. Well, sometimes they don't pay. Sometimes
18 they complete calls to other customers who have wireless
19 phones or customers who happen to be using their
20 wireless phone that day.

21 Q. But for those circumstances in which
22 customers are using their wireline phone or a call is
23 directed to a wireline phone, there is no substitute for
24 using Verizon access services, is there?

25 A. If you're asking me whether there's any

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1 substitute -- when a call is directed to a particular
2 instrument, is there any substitute for using that
3 instrument? I don't think I understand your question.

4 Q. No, I'm saying if I have a phone number
5 that's been assigned to me by Verizon and it goes to my
6 landline phone in Everett, Washington and somebody wants
7 to place a call to me from Olympia, is there any way of
8 getting that call to me in Everett other than through
9 Verizon's access charges?

10 A. In that scenario, if you wanted to reach that
11 particular phone, it's a Verizon phone, you would pay,
12 you know, the access charge Verizon assesses.

13 MR. KOPTA: Thanks, that's all I have.

14 JUDGE SCHAER: Is there any more cross or
15 redirect from any other party? We're going to finish
16 cross, then redirect, of course.

17 MS. SMITH: Thank you, Judge Schaer,
18 Commission Staff has a couple of follow-up questions for
19 Dr. Danner.

20 JUDGE SCHAER: Go ahead, please.

21

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

23 BY MS. SMITH:

24 Q. Dr. Danner, I have a question for you to
25 begin with regarding your discussion of the contribution

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1 that access charges make to cover overall costs. Do you
2 understand that interstate rates are much higher than
3 intrastate rates?

4 A. I'm sorry?

5 Q. Interstate rates are lower than intrastate
6 rates, I'm sorry, I misspoke.

7 A. Which rates are you speaking of?

8 Q. I am speaking of toll rates, access charge
9 rates, the interstate rates are much lower than
10 intrastate rates. Do you agree with that?

11 A. You mean as a general -- let's focus a
12 little. Do you mean for Verizon in Washington?

13 Q. Yes.

14 A. My understanding is that the interstate rates
15 that Verizon charges in Washington are significantly
16 lower, yes.

17 Q. How do you reconcile with -- how do you
18 reconcile this with the much higher profits that Verizon
19 reports on the interstate side?

20 A. I'm not sure I understand your question. How
21 do I reconcile it with different levels of profit.
22 Verizon on the -- in Washington offers a wide range of
23 services in the state jurisdiction they don't offer in
24 the federal jurisdiction. There is much different rate
25 making process applied in the federal jurisdiction,

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1 including much more what I would regard as realistic
2 depreciation in past years resulting in a smaller rate
3 base. I don't see a necessary correspondence between
4 the two.

5 MS. SMITH: That's all I have, thank you,
6 Dr. Danner.

7 JUDGE SCHAER: Anything else from WorldCom?

8 MS. SINGER NELSON: No, thank you.

9 JUDGE SCHAER: Okay, any redirect?

10 MR. CARRATHERS: Very briefly, thank you,
11 Your Honor.

12 JUDGE SCHAER: Go ahead, please.

13

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

15 BY MR. CARRATHERS:

16 Q. Dr. Danner, do you recall Chairwoman
17 Showalter asked you a number of questions relating to
18 Verizon's reliance on Commission decisions in prior
19 proceedings, and isn't it reasonable for AT&T to be able
20 to challenge some of those assumptions that were used in
21 those proceedings in this case; do you recall that
22 discussion?

23 A. Yes.

24 Q. Specifically Chairwoman Showalter said, well,
25 what about access rates being above LRIC, if they're

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1 above LRIC they're unlawful, and if they truly are
2 unlawful, shouldn't AT&T have an opportunity to present
3 its argument here, and we relied on prior proceedings to
4 rebut that, correct?

5 A. Yes.

6 Q. Could you tell me, if AT&T's claim is correct
7 that all access charges that are above LRIC are
8 unlawful, does that affect just Verizon's access rates?

9 A. No, it wouldn't. The access charge rule
10 would be unlawful, and as I understand it every access
11 charge I believe charged by every carrier in the state
12 that I'm aware of, you know, local carriers certainly
13 would be unlawful as well, including Qwest.

14 Q. And would every above cost access charge of
15 every carrier in the United States be unlawful?

16 A. Presumably.

17 Q. Now the other issue that Chairwoman Showalter
18 asked you about, and indeed AT&T in this case takes
19 issue with the imputation test that relies on Verizon's
20 long run increment cost. AT&T challenges that standard,
21 and yet part of Verizon's response is relying on prior
22 proceedings. Again, if AT&T is correct, what does that
23 mean for imputation generally in Washington state as it
24 relates to not just Verizon but other carriers?

25 A. Well, presumably every other carrier

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1 including Qwest that has relied on imputation studies
2 for toll rates would have to redo them, possibly reset
3 the rates. I don't know, but it's again I would agree
4 that it's more than just Verizon.

5 Q. And finally on that point, AT&T again argues,
6 well, you know, gee, you're creating a price squeeze,
7 and shouldn't AT&T be permitted to explore those
8 arguments here. And yet again we relied on prior
9 proceedings; could you briefly explain the ramifications
10 of AT&T's argument in this case and why we relied on
11 prior proceedings?

12 A. Once again, AT&T had presented the same
13 arguments in prior proceedings under factual
14 circumstances that are fairly similar to where we are
15 today, and the Commission had rejected them.

16 Q. So as a consequence of AT&T's argument, it's
17 not really Verizon specific in your opinion, it is
18 industry specific for carriers within the state of
19 Washington?

20 A. I don't see any reason why it would be
21 limited to Verizon.

22 Q. Now Chairwoman Showalter asked you, well, if
23 the Commission decides in this case that changes should
24 be made to access charges, should we have a separate
25 proceeding to address that, and you said yes. Could you

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1 please clarify your opinion on what should happen in
2 those proceedings and what should or should not be done?

3 A. Well, I think you come back to the what I
4 understand to be the legal standard in Washington, which
5 is that rates need to be just, reasonable, and
6 sufficient. The sufficient has to refer in this
7 instance to sufficient rates for Verizon's operations.
8 So the proceeding that I think would be permissible or
9 would make sense would involve holding off on making
10 actual rate changes to access until corresponding
11 revenue neutral offsets could be implemented at the same
12 time.

13 Q. And, Dr. Danner, Chairwoman Showalter also
14 referenced the merger order in Verizon's -- repeated
15 references to the merger order and the findings there.
16 Again, could you briefly explain why the issue of access
17 charges and the just, reasonable, and sufficiency of the
18 company's overall rates and revenue requirement, how
19 that relates both to the merger order and this instant
20 proceeding?

21 A. Well, in the merger order, the Commission was
22 considering the overall sufficiency of revenues for
23 Verizon. We have -- and made the just, reasonable, and
24 sufficiency finding on that basis. We have talked about
25 a number of circumstances that have changed somewhat

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1 since that time. Of course, one of them is Verizon's
2 earnings level has also been raised, so. And I have
3 also articulated how the merger order approved those
4 rates notwithstanding many of the same circumstances
5 that exist today that have been brought forth in this
6 complaint, so I think.

7 Q. And to be especially clear, you don't believe
8 the Commission should reduce access charges before it
9 considers offsetting increases in other rates, are you?

10 A. No.

11 Q. Now finally, Dr. Danner, the Commission Staff
12 asked you about the difference between the intrastate
13 access charges Verizon files and the interstate access
14 charges that Verizon had and explained the differences;
15 do you recall that?

16 A. Yes, I do.

17 Q. And were you here yesterday during the
18 cross-examination of Mr. Zawislak when he discussed the
19 FCC CALLS order?

20 A. Yes, I was.

21 Q. Could you very briefly explain why interstate
22 access charges would be lower than intrastate charges
23 based on the CALLS order?

24 A. Well, the CALLS order provided offsetting
25 revenue increases to the company. So there was some

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1 support for increases in subscriber charges and so on.
2 It was some down and some up.

3 Q. Is that one of Verizon's positions in this
4 case if you're going to reduce access?

5 A. That is a way you could reduce access charges
6 here.

7 MR. CARRATHERS: Those are all the questions
8 I have. Thank you very much.

9 CHAIRWOMAN SHOWALTER: Just really a
10 statement. I understood the dialogue you just had, but
11 as a matter of fact, I don't believe I asked questions
12 specifically about AT&T's claim that if rates were above
13 LRIC then they must fall. My question, and I think you
14 answered them in that context, was a more general one,
15 that is if a claim comes in that a rate violates the
16 law, regardless of the specific theory, do we have an
17 obligation to entertain that. And I don't think I was
18 making specific statements about AT&T's theory of this
19 case. They do have a theory of their case, but at the
20 same time they have brought a general claim that has now
21 been joined by other parties, but I understand the
22 discussion.

23 MR. CARRATHERS: Thank you, Your Honor, and I
24 did not mean to misquote you. Again, I understood your
25 questions to go to reliance on prior proceedings in

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1 AT&T's specific complaint here, and I wanted to clarify
2 that connection, so I apologize if I misstated.

3 JUDGE SCHAER: Okay, is there anything else
4 for Dr. Danner?

5 MR. KOPTA: May I ask a couple of questions
6 following up on the redirect?

7 JUDGE SCHAER: Go ahead.

8 MR. KOPTA: Thank you.

9

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

11 BY MR. KOPTA:

12 Q. Dr. Danner, you were discussing with your
13 counsel on redirect your opinion as to how this case
14 should proceed if the Commission were to find that
15 access charge reductions were appropriate. Do you
16 recall that discussion?

17 A. Yes, Mr. Kopta, I do.

18 Q. And is it your view that if the -- well, let
19 me rephrase this.

20 As it stands right now, are all of Verizon's
21 existing rates fair, just, reasonable, and sufficient?

22 A. Yes, I believe they are.

23 Q. Even though Verizon is generating only, in
24 Verizon's view, only a 2.84% rate of return in
25 Washington?

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1 A. Well, I think the rates stay fair, just, and
2 reasonable until they're changed. Verizon has a choice
3 as to whether it wants to go through the rate case
4 process and apply for more, but I think the rates as
5 they stand today are fair, just, and reasonable.

6 Q. And sufficient?

7 A. I would have to say so.

8 Q. And one other question, you were discussing
9 the CALLS, C-A-L-L-S, order. Is it your understanding
10 that that order is revenue neutral?

11 A. I think there may have been a certain
12 shortfall on the rebalancing, but I'm not sure.

13 Q. Certainly a shortfall, which direction, do
14 you remember?

15 A. Meaning that the revenue increases did not
16 quite offset the decreases.

17 MR. KOPTA: Thank you.

18 I would like to move for the admission of
19 Exhibits 265 and 266, please.

20 JUDGE SCHAER: Any objection?

21 Those documents are admitted.

22 MR. KOPTA: Thank you.

23 MR. CARRATHERS: Your Honor, if I may indulge
24 and ask a clarifying question based on just one question
25 based on Mr. Kopta's question.

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1 JUDGE SCHAER: If it's really short.

2 MR. CARRATHERS: Very short.

3 JUDGE SCHAER: Okay, go ahead.

4 MR. CARRATHERS: Thank you.

5

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

7 BY MR. CARRATHERS:

8 Q. Dr. Danner, Mr. Kopta asked you if you
9 believe Verizon's current rates are sufficient today
10 even though Verizon's claiming its earning at a 2.4%
11 return. Do you recall that question?

12 A. Yes.

13 Q. Just to clarify, Dr. Danner, is that answer
14 based on the fact that the Commission determined them to
15 be sufficient previously and there has been no decision
16 to the contrary?

17 A. Yes.

18 MR. CARRATHERS: Thank you.

19 JUDGE SCHAER: Is there anything else for
20 Dr. Danner?

21 MS. ENDEJAN: No, Your Honor.

22 MR. CARRATHERS: No, Your Honor, thank you.

23 JUDGE SCHAER: Let's take a five minute stand
24 in your place recess to allow Dr. Danner to leave the
25 stand, and perhaps we can discuss who the next witness

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1 will be and go ahead and allow whatever witness that is
2 to take the stand.

3 MS. ENDEJAN: Verizon would call Nancy
4 Heuring as its next witness.

5 JUDGE SCHAER: Okay, so we're off the record
6 for five minutes.

7 (Recess taken.)

8 JUDGE SCHAER: Let's be back on the record.
9 Would you like to call your next witness, please,
10 Ms. Endejan?

11 MS. ENDEJAN: Yes, Your Honor, Verizon would
12 call Nancy Heuring to the stand and request that she be
13 sworn in.

14

15 Whereupon,

16 NANCY HEURING,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19

20 JUDGE SCHAER: Your witness is sworn,
21 Ms. Endejan.

22 MS. ENDEJAN: Thank you Your Honor.

23

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0721

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

2 BY MS. ENDEJAN:

3 Q. Ms. Heuring, do you have before you what has
4 been marked as Exhibit T-242-R, Exhibits 243, 244, and
5 245?

6 A. I do.

7 Q. And does this constitute the pre-filed
8 testimony you prepared in this case and the accompanying
9 exhibits?

10 A. Yes, it does.

11 Q. If I asked you the questions that are
12 contained in Exhibit T-242-R, would your answers remain
13 the same?

14 A. Yes, they would.

15 MS. ENDEJAN: Thank you.

16 Your Honor, I would move for the admission --

17 THE WITNESS: May I withdraw that one
18 exhibit, sorry?

19 BY MS. ENDEJAN:

20 Q. Oh, yes, excuse me. Are there any additions
21 or corrections or changes you would like to make to
22 these exhibits?

23 A. Yes, there's one exhibit, I would like to
24 withdraw one page on Exhibit 244, I would like to
25 withdraw page 2 of 2.

0722

1 Q. With the exception of that change, your
2 testimony would remain the same, correct?

3 A. That's correct.

4 JUDGE SCHAER: So again, that was which
5 exhibit, please, Ms. Heuring?

6 THE WITNESS: It's Exhibit 244, page 2 of 2
7 only.

8 JUDGE SCHAER: Okay.

9 MS. ENDEJAN: With that, I would offer for
10 admission Exhibit T-242-R through Exhibit 245.

11 JUDGE SCHAER: Are there any objections?

12 Okay, those documents are admitted.

13 MS. ENDEJAN: And the witness is available
14 for cross-examination.

15 JUDGE SCHAER: Okay.

16 Mr. Kopta, did you have questions of this
17 witness?

18 MR. KOPTA: Yes, I have a few.

19 JUDGE SCHAER: Thank you, go ahead, please.

20 MR. KOPTA: Thank you.

21

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

23 BY MR. KOPTA:

24 Q. Good morning, Ms. Heuring, how are you?

25 A. Just fine.

0723

1 Q. Would you turn in your direct testimony,
2 Exhibit T-242-R, to page 4, and specifically line,
3 actually the sentence that begins on line 20. And at
4 that point, you were testifying that Verizon's
5 intrastate return utilizing the nine month to date
6 period ending September 2002 on an annualized basis is
7 2.84%; is that correct?

8 A. That's correct.

9 Q. And Verizon's authorized rate of return,
10 which I believe you also reference on this page on line
11 14, is 9.76%; is that accurate?

12 A. That's correct.

13 Q. Is it your testimony or opinion that
14 Verizon's current rates are insufficient to enable
15 Verizon to earn its authorized rate of return?

16 A. I'm not sure I'm the appropriate witness to
17 testify to Verizon's current rates and whether they're
18 sufficient or not. I mean I just heard Mr. Danner
19 provide testimony on behalf of the company. My
20 testimony is not about the rates, but it's about the
21 earnings of the company.

22 Q. Okay. So you have no opinion on whether or
23 not the rate levels are the cause of the discrepancy
24 between the authorized rate of return and what Verizon
25 calculates as its actual rate of return?

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1 MS. ENDEJAN: I guess I would object to the
2 form of the question. If you could rephrase it, Greg,
3 I'm uncertain I understood it.

4 MR. KOPTA: Well, I'm simply trying to
5 understand Verizon's view as to why there is a
6 discrepancy between the authorized rate of return of
7 9.76% and what Verizon calculates as its current
8 intrastate rate of return of 2.84%, and my question is,
9 are Verizon's rate levels at all responsible for that
10 discrepancy?

11 MS. ENDEJAN: Well, Mr. Fulp addresses this
12 issue in his testimony. This is the company's earnings
13 witness, and so to the extent she can comment on her
14 perspective from an earnings standpoint, that would be
15 the only thing that she could speak to.

16 JUDGE SCHAER: Why don't we do that, why
17 don't we allow Ms. Heuring to speak to what she can in
18 the earnings perspective. But also if you wish to have
19 this question transferred to Mr. Fulp, then I would
20 think that, Mr. Kopta, you could ask him also.

21 MR. KOPTA: That would be fine. I'm just a
22 little bit curious though of the difference between
23 rates and earnings, aren't earnings the result of rates,
24 is there a distinction?

25 JUDGE SCHAER: You may want to ask that

0725

1 question of the witness.

2 MR. KOPTA: All right, I will.

3 BY MR. KOPTA:

4 Q. In your view or in what you are asked to look
5 at on behalf of Verizon, is there a distinction between
6 the rates that Verizon has established and its earnings?

7 A. Maybe I can answer it in the context of my
8 testimony. The earnings of the company are obviously,
9 you know, the difference between the revenues that we
10 receive and the expenses that we incur, and then the
11 rate of return of course considers the return on our
12 investment. You can see that from my testimony our
13 earnings on an intrastate basis have declined over the
14 last several years. A large driver of that is due to
15 the competitive effects that we have with the loss of
16 access lines in our revenue streams are deteriorating
17 from that standpoint. In addition, we have continued to
18 invest in the company, which increases the rate base,
19 which drives the return downward. And then in the
20 expense area, our expenses are -- have maintained --
21 have remained flat. So those items, the competition,
22 the declining revenue, and the increase in the
23 investment are what is driving the return lower than it
24 has been over the last couple of years.

25 Q. Well, let me rephrase the question a little

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1 bit, because I think we're not still synced up. It
2 sounds to me as though what you reviewed was Verizon's
3 financial position from a macro perspective, whereas
4 rates you would consider to be a micro perspective. Is
5 that, do those terms have any meaning for you?

6 MS. ENDEJAN: Well, Your Honor, again, if I
7 would point out that Mr. Fulp is the proper witness that
8 the company is presenting to discuss the link between
9 rates and earnings. Ms. Heuring is reporting on the
10 numbers as reflected on the books, and she is not here
11 to opine upon matters other than these are what the
12 numbers show. She's a financial witness, she's not a
13 policy witness.

14 MR. KOPTA: And I'm not asking a policy
15 question. I'm simply trying to confirm what I believe
16 Ms. Endejan just represented, which is that from a macro
17 perspective I mean looking at accounts that have
18 collected the revenues from the rates as opposed to
19 going to a micro level, which is whether the individual
20 rates generate sufficient returns, is that what your
21 task was in this proceeding?

22 JUDGE SCHAER: Let me rule on the objection
23 before you go forward, but I do think it is appropriate
24 to let Mr. Kopta explore with the witness the scope of
25 her testimony and what is in that scope and what is not,

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1 and I will be listening as well as you to see if there
2 are things that you think are objectionable that go
3 beyond that scope, but I don't think that they are there
4 yet.

5 Go ahead, Mr. Kopta.

6 BY MR. KOPTA:

7 Q. Do you have the question in mind?

8 A. No.

9 Q. I thought not. Am I correct that your review
10 of Verizon's financial data was limited to accounts in
11 which revenues have been placed, I won't use any loaded
12 terms, those revenues having been generated from
13 whatever source as opposed to what the source is of how
14 those revenues were generated?

15 A. By what the source is, I'm not sure what
16 you're referring to when you use that phrase.

17 Q. Well, let's put it in better context. Do you
18 have Exhibit 209?

19 A. Yes, I do.

20 Q. If you would turn to the attachment 52 to
21 Exhibit 209, please.

22 A. I have that.

23 Q. And let's just as an example look under
24 operating revenues, the first entry, local network
25 service, and you have there's a dollar amount under each

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1 of these years.

2 A. That's correct.

3 Q. Am I correct that you were looking at those
4 dollar amounts that are under those categories as
5 opposed to, you know, each individual rate that
6 comprises local network services that generate the total
7 revenue that you're looking at?

8 A. Well, when you say what was I looking at, I'm
9 the financial witness for the company, my
10 responsibilities relate to reporting the intrastate
11 financials to the various state jurisdictions. And as
12 part of that, I review and attest to the financial
13 records of the company, not what rate times quantity is
14 used, but the overall result that's booked, and that the
15 financials are properly stated.

16 Q. Okay, that's what I was trying to get at,
17 thank you.

18 While we're on this exhibit, I did have a
19 couple of questions about it, and specifically I'm going
20 to focus on the years 1999 and 2000.

21 A. Okay.

22 Q. Do you recall the date of this Commission's
23 order approving the merger between Bell Atlantic and
24 GTE?

25 A. I don't know the date exactly, but it was in

0729

1 2000.

2 Q. Well, would you accept subject to check that
3 it was in late 1999?

4 A. Subject to check, sure.

5 Q. Sorry, I didn't mean to embarrass you, I
6 thought you would know. And are you aware that the
7 merger closed in I believe June of 2000?

8 A. That's correct.

9 Q. Now if we look at the last column or last
10 item in the far left column, which is rate base rate of
11 return, and in 1999 there was a 12.5%, and in 2000 there
12 was a 5.59%.

13 A. That's correct.

14 Q. So the last year that GTE operated as an
15 independent company, it was overearning based on a 9.76%
16 authorized rate of return?

17 A. The 12.5% is in excess of the 9.76%
18 authorized.

19 Q. And the first year that the merged company
20 provided service in Washington, its actual rate of
21 return was significantly less than --

22 A. Well, the year 2000 is actually a split year,
23 as you mentioned, half year under each ownership. And
24 there are several factors that caused that return to
25 drop, which had nothing to do with the merger. There

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1 are no merger costs at all in this year 2000 financials
2 that are reported here.

3 We did have an order from this Commission to
4 increase depreciation expense by \$20 Million that year,
5 which dropped the return by like 150 basis points. In
6 addition, we have the entire \$30 Million rate reduction
7 that was agreed to in the merger settlement reflected in
8 the year 2000 here, which also dropped the return by
9 another 200 basis points. And then you will also see
10 that we had continued rate base growth and some growth
11 in some other expense categories, which also contributed
12 to the drop in the return. So the drop in the return
13 had nothing to do with the merger itself, but
14 operational accounting, Commission policy type things
15 that were implemented in the numbers.

16 Q. Well, let me examine that statement it had
17 nothing to do with the merger. I believe you referenced
18 part of the reductions that the Commission --

19 A. Nothing operational with the merger, but with
20 the merger settlement that was approved, yes.

21 Q. So the merger settlement was a major
22 contributing factor then to the drop in rate?

23 A. That's correct.

24 Q. I wanted to look at a couple of the columns
25 here in 1999 and 2000, and you may have explained some

0731

1 of these already, but to explore what the discrepancies
2 were. And the first one that jumps out at me as a large
3 discrepancy is under miscellaneous revenues. There was
4 a drop there I believe of close to \$36 Million.

5 A. That's correct, and around \$30 Million of
6 that relates to the change in the directory contract
7 from the sharing contract to the fee for service
8 contract and the accounting under each of the different
9 contracts.

10 Q. And was that something that was ordered by
11 the Commission or something that Verizon did on its own?

12 A. It was not ordered by the Commission.

13 Q. The next one is plant nonspecific operations,
14 which is under the operating expenses, the second bolded
15 category, there you had an increase of approximately \$11
16 Million.

17 A. That's correct, and there is in the research
18 that we did related to the financials in that area,
19 there was nothing unusual or unusual activity in that
20 particular year that drove that increase.

21 Q. Okay. Then the next line down is customer
22 operations, and there you had an increase of
23 approximately \$12 Million.

24 A. Right, in that area, the increase in expense
25 in that year dealt with consolidation of centers that we

0732

1 had in the customer operations area.

2 Q. So that was a merger related expense?

3 A. Not necessarily. Anything that was directly
4 attributable to the merger was removed out of these
5 accounts. This was GTE activity in that year.

6 Q. So this was all within the GTE part of
7 Verizon that this consolidation took place?

8 A. That's correct.

9 Q. Then there was no relationship to the merger?

10 A. That's correct.

11 Q. And finally in the last entry under operating
12 expenses, jurisdictional difference, depreciation/IDC,
13 there's a difference there of \$17 Million.

14 A. Right, what you need to do there is line 14
15 depreciation and amortization expense, and line 16
16 jurisdictional difference, depreciation/IDC, need to be
17 added together to reflect the Commission's rate making
18 policies related to depreciation. The difference there
19 reflects the increase in depreciation expense which the
20 Commission ordered that year, so which I mentioned was
21 around \$20 Million. But the two items together are the
22 company's state depreciation expense.

23 Q. Okay. And was that depreciation alteration
24 something that Verizon opposed, or was that something
25 that Verizon agreed to in conjunction with the

0733

1 Commission; how did that arise?

2 A. We worked with the Commission and I believe
3 the FCC in a three-way meeting.

4 Q. And that resulted in a Commission order
5 approving?

6 A. Yes.

7 MR. KOPTA: Okay, thanks very much.

8 I would move for admission of Exhibit 209.

9 JUDGE SCHAER: Any objections?

10 Exhibit 209 is admitted.

11 MR. KOPTA: Thank you.

12 JUDGE SCHAER: Did WorldCom have any
13 questions?

14 MS. SINGER NELSON: No, thank you.

15 JUDGE SCHAER: Commission Staff?

16 MS. SMITH: Yes, thank you, Judge Schaer.

17

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

19 BY MS. SMITH:

20 Q. Good morning, Ms. Heuring, I'm Shannon Smith
21 representing Commission Staff, and I just want to
22 clarify, in this docket, you are not testifying as a
23 cost witness, are you?

24 A. Could you say that again, please.

25 Q. Are you the company's cost witness?

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1 MS. ENDEJAN: No, she's not.

2 MS. SMITH: Can she answer the question?

3 MS. ENDEJAN: Well, I thought it was clear
4 from the testimony here and not --

5 MS. SMITH: I guess I just want to make sure
6 that --

7 JUDGE SCHAEER: Ms. Endejan, let's just let
8 the witness answer the question unless you have an
9 objection, please.

10 A. I guess I'm confused by your term cost,
11 because I am testifying to the company's financials,
12 which include the costs of the company, so.

13 BY MS. SMITH:

14 Q. I just wanted to make sure I was asking the
15 right questions of the right witness.

16 Could you please turn to your testimony, your
17 direct testimony at page 3, line 16.

18 A. Okay.

19 Q. And you refer at that line to rate base.
20 Does that rate base in your testimony and in your
21 exhibits relate only to access service?

22 A. You need to give me a context, because mine
23 doesn't have rate base on that line.

24 Q. I'm sorry, it's just revenue requirements
25 calculation.

0735

1 A. Thank you.

2 Q. I guess. I was using a shorthand term of
3 rate base.

4 A. Could you ask your question again, please.

5 Q. Does that reference at page 3, line 16 of
6 your testimony and in your exhibits relate only to
7 access service?

8 A. No, it relates to the intrastate financials
9 of the company.

10 Q. Would that include access service?

11 A. Yes, it would, the intrastate access service.

12 Q. Would you agree that when determining the
13 incremental cost of a service, a return of and a return
14 on the investment is included in the long run
15 incremental cost as well as the recovery of the direct
16 expenses, taxes, and other items such as repair and
17 maintenance?

18 MS. ENDEJAN: Object, Your Honor, now that
19 specific question does relate to the testimony of
20 Verizon's cost witness and witnesses. This witness is
21 here to testify as to the company's total operating
22 costs, not for purposes of determining service specific
23 costs determined on a long run incremental basis or
24 otherwise. That is really, really far beyond the scope
25 of her testimony.

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1 JUDGE SCHAER: Ms. Smith.

2 MS. SMITH: I can ask that question of
3 another witness, but we are talking about return and
4 return on investment, and I thought perhaps this witness
5 as the company's financial witness would be able to
6 answer that very general question.

7 MS. ENDEJAN: Your Honor, long run
8 incremental cost is not the same thing as actual cost
9 from a financial standpoint. That would be clear if
10 Ms. Smith questioned the company's cost witness about
11 that. And talking about rate of return here is in the
12 context of the company's overall financials, not in
13 terms of how you allocate it to a specific service for
14 purposes of making a long run incremental cost
15 calculation. That's far beyond the scope of this
16 witness's testimony or expertise.

17 JUDGE SCHAER: Who is your cost witness?

18 MS. ENDEJAN: Mr. Tucek.

19 JUDGE SCHAER: Okay.

20 MS. SMITH: I will ask that question of
21 Mr. Tucek, thank you, and withdraw it with respect to
22 Ms. Heuring.

23 CHAIRWOMAN SHOWALTER: We need to hold up for
24 a minute.

25 First of all, is there anybody on the

0737

1 conference bridge? Hello? Oh, wait a minute, now
2 answer that question again, is there anyone on the
3 conference bridge?

4 Either there's no one or they're not
5 listening. If there is anyone on the conference bridge,
6 you are getting cut off now, and we will start up the
7 conference bridge again at 1:30.

8 MS. SMITH: Are we going to continue?

9 JUDGE SCHAER: Go ahead, Ms. Smith, I would
10 like to continue until noon.

11 MS. SMITH: Thank you.

12 JUDGE SCHAER: Especially as we're not going
13 to be back until 1:30.

14 MS. SMITH: I think the mikes might be off
15 now.

16 JUDGE SCHAER: Okay, give me a moment.

17 Do the mikes work now?

18 MS. SMITH: Thank you.

19 BY MS. SMITH:

20 Q. Ms. Heuring, I would like to now direct your
21 attention to page 8 of your direct testimony,
22 specifically lines 4 through 11.

23 A. Okay.

24 Q. You reference in that testimony a compliance
25 report. Does that compliance report include an

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1 adjustment increasing revenues to include the revenues
2 imputed from Verizon Information Service or its
3 directory services?

4 A. It does not include an imputation. What it
5 reflects is the actual revenues that are recorded by
6 Verizon Northwest under the FCC requirements to charge
7 for subscriber listings.

8 Q. Did Verizon file an accounting petition with
9 this Commission requesting different treatment or
10 elimination of directory imputation?

11 A. I'm not aware of any requirement for us to
12 file a petition to change the accounting when the
13 accounting that we're recording is in accordance with
14 GAAP and part 32 rules.

15 JUDGE SCHAER: Ms. Heuring, I'm going to ask
16 you on questions like this to answer yes or no before
17 you give an explanation.

18 THE WITNESS: That's fine.

19 JUDGE SCHAER: Because I'm not sure which one
20 you said, so could you do that, please.

21 THE WITNESS: No, the answer was no.

22 JUDGE SCHAER: Okay, thank you.

23 BY MS. SMITH:

24 Q. In that same report, Ms. Heuring, is an
25 adjustment made in the -- is an adjustment made for line

0739

1 sharing?

2 A. In the compliance report then reflects the
3 books and records of the company, and when whatever line
4 sharing revenue was recorded in a particular year is
5 reflected in the report. As the requirement of the
6 compliance report that you're questioning here is for us
7 to reflect our books and records to the Commission, and
8 there is no requirement in the reporting rules for us to
9 put a pro forma on for a change in a rate that might
10 occur in a later year.

11 Q. Are you at all familiar with this
12 Commission's decision in Docket Number UT-003013, Part
13 A? That's one of our generic pricing proceedings.

14 A. I am not.

15 Q. Would you accept subject to check that in
16 that order the Commission specifically required that
17 incumbent companies such as Verizon and Qwest need to
18 impute the line sharing amount for each DSL service the
19 company provides?

20 MS. ENDEJAN: Well, to the extent the
21 document speaks for itself, you know, we'll look at the
22 document. You're making -- you're just making this
23 question as a foundation, so your question is?

24 MS. SMITH: I guess I'm just asking her to
25 accept that subject to check. If she can, she can, if

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1 she's willing, she's willing. That's my question.

2 JUDGE SCHAER: Can you make the document
3 available over the lunch hour so that she will have an
4 opportunity to check and then may answer.

5 MS. SMITH: Certainly, Your Honor.

6 JUDGE SCHAER: Thank you.

7 BY MS. SMITH:

8 Q. Ms. Heuring, does VADI stand for Verizon
9 Advanced Data, Inc.?

10 A. I believe it does.

11 Q. When did Verizon integrate VADI, reintegrate
12 VADI?

13 A. In January of 2002.

14 Q. So that being the case then, Verizon now
15 actually provides DSL service rather than the separate
16 VADI affiliate; is that correct?

17 A. Verizon Northwest does provide DSL service,
18 that's correct.

19 Q. Are uncollectibles or access charges affected
20 in some way by the WorldCom bankruptcy in the test year
21 2002 as used in your analysis?

22 A. The uncollectible revenues that are reflected
23 in the year 2002 do include a reserve for the potential
24 uncollectible status of the WorldCom revenues due to
25 their filing of their bankruptcy, yes. And but you

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1 asked also access, we are also seeing an impact, the
2 uncollectibles that -- reserve that we recorded in --
3 are reflected in the year 2002 relates to the WorldCom
4 revenues that we also collected in the year 2002, and
5 then we also are seeing a decline in those revenues
6 going forward.

7 Q. Do you know the exact amount Verizon will
8 receive from WorldCom in relation to the bankruptcy
9 proceeding?

10 A. I do not.

11 Q. Is the VADI included in the financials of
12 Verizon for the entire year 2002?

13 A. Since it was reintegrated in January of 2002,
14 I believe it does.

15 Q. Was VADI losing money before it was
16 reintegrated into Verizon Northwest or into Verizon?

17 A. I do not know.

18 Q. Are DSL access lines increasing each year?

19 A. I can't really say that I have looked
20 specifically at DSL access line counts.

21 MS. SMITH: I might be close to being done if
22 I can just have one second.

23 JUDGE SCHAEER: Okay.

24 BY MS. SMITH:

25 Q. Ms. Heuring, do you have Exhibit 114 before

0742

1 you?

2 A. I don't believe so.

3 MS. ENDEJAN: Ms. Smith, what is 114?

4 MS. SMITH: I am looking for it myself. I
5 will identify it.

6 JUDGE SCHAER: Ms. Endejan, can you make that
7 available to your witness?

8 MS. ENDEJAN: As soon as I find it.

9 MS. SMITH: It's Verizon's response to Data
10 Request Number 39, Staff Data Request Number 39.

11 JUDGE SCHAER: Excuse me, what's the exhibit
12 number?

13 MS. SMITH: It's Exhibit Number 114. It's an
14 attachment to Tim Zawislak's rebuttal testimony, Exhibit
15 TWZ-13, and I apologize for not having this readily
16 identifiable.

17 MS. ENDEJAN: I have found it, Your Honor.

18 JUDGE SCHAER: Would you like to approach the
19 witness?

20 MS. ENDEJAN: If I may approach the witness
21 and if I also might share the exhibit with the witness.

22 JUDGE SCHAER: Certainly, go ahead.

23 MS. SMITH: Thanks for your patience,
24 everyone.

25 BY MS. SMITH:

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1 Q. I would also like to draw your attention in
2 addition to Exhibit 114, your Exhibit 243, page 3 of 3.
3 Now is it true that approximately \$25 Million was
4 received from the Universal Service Administration
5 Company or USAC in your September 2002 year to date
6 annualized test period is included in column B on page 3
7 of 3 of Exhibit 243?

8 A. That's correct.

9 Q. How much of that amount received by Verizon
10 from USAC was booked into intrastate in column F, total
11 intrastate restated?

12 MS. SMITH: I guess I would prefer that there
13 wouldn't be any consultation from counsel at the table.

14 MS. ENDEJAN: Well, I guess, Ms. Smith, if
15 you're asking her to do something that is susceptible of
16 doing off the stand as a Bench request, maybe we could
17 answer your question that way and facilitate the
18 discussion. That's all I was trying to do.

19 JUDGE SCHAER: I would like you not to be
20 conversing with the witness, please, and I do think it's
21 appropriate if she can answer the question to let us
22 know where the number in the response to Data Request
23 Number 39 appears.

24 A. My understanding would be that the entire
25 \$25.5 Million would be reflected in column F, subject to

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1 check.

2 BY MS. SMITH:

3 Q. Would the interstate access revenue be in
4 column F?

5 A. Well, any revenue that we receive from the
6 interstate jurisdiction is not reflected in column F,
7 but any subsidy that we receive out of the universal
8 service fund that supports the intrastate jurisdiction
9 is reflected in column F.

10 Q. So just to clarify, the interstate access
11 support that's reflected in Exhibit 114 is not booked to
12 the intrastate jurisdiction?

13 A. To which jurisdiction, I didn't understand
14 the last part?

15 Q. Intrastate.

16 A. I could say it a different way. Any support
17 that we receive from USAC that supports the intrastate
18 jurisdiction we reflect in these financials.

19 Q. Would you agree, Ms. Heuring, that the \$25
20 Million or so reflected on Exhibit 114 is interstate
21 revenue?

22 MS. ENDEJAN: Ms. Smith, excuse me, I believe
23 that Mr. Dye can best answer that question with
24 specificity if you could defer that question to him.

25 MS. SMITH: Well, I don't know why Staff

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1 should defer that question to Mr. Dye. This is the
2 financial witness. We are asking questions about how
3 the company books revenue. I think this would be the
4 appropriate witness to answer the question. If she
5 doesn't know the answer, then I would like to know that
6 as well.

7 A. Well, I thought I answered it, but my
8 understanding of this is that this is money that's
9 distributed out of USAC, and we record that in our
10 financials. And when it's support that we receive out
11 of USAC that is a support to the intrastate
12 jurisdiction, in my group when we prepare the regulatory
13 financials, we reflect that activity as revenue in the
14 intrastate books and records.

15 BY MS. SMITH:

16 Q. What about the fact --

17 A. If there's anything other different about
18 this that I don't understand, then Terry is probably the
19 best one to talk about it, but.

20 JUDGE SCHAER: Ms. Smith, how much more do
21 you estimate that you have?

22 MS. SMITH: We don't have anything else,
23 thank you.

24 JUDGE SCHAER: No, you can, I just think we
25 need to take a lunch break.

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1 MS. SMITH: I think you picked a good time,
2 because we're finished.

3 JUDGE SCHAER: Okay, here is the plan as far
4 as I know it. We are going to start up again at 1:30.
5 Ms. Endejan will not be available until 2:00, so we will
6 not be taking up at 1:30 with Ms. Heuring, and I would
7 like to wait until, I'm not certain if she's done or
8 not, but we need to --

9 MS. ENDEJAN: Your Honor, I have no redirect
10 for this witness. I don't know if the Commissioners
11 have any questions.

12 JUDGE SCHAER: Do you have any questions?

13 COMMISSIONER OSHIE: No.

14 COMMISSIONER HEMSTAD: No.

15 JUDGE SCHAER: Is there anything further for
16 Ms. Heuring?

17 Okay, then thank you for your testimony, and
18 we're off the record.

19 (Luncheon recess taken at 12:10 p.m.)

20

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

22 (1:35 p.m.)

23 JUDGE SCHAER: Let's be back on the record
24 after our lunch recess, and would you like to call your
25 next witness, please, Mr. Carrathers.

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1 MR. CARRATHERS: Thank you, Your Honor,
2 Verizon calls Mr. David Tucek

3
4 Whereupon,

5 DAVID G. TUCEK,
6 having been first duly sworn, was called as a witness
7 herein and was examined and testified as follows:

8
9 JUDGE SCHAEER: Your witness is sworn.

10 MR. CARRATHERS: Thank you.

11

12 DIRECT EXAMINATION

13 BY MR. CARRATHERS:

14 Q. Good afternoon, Mr. Tucek. Could you please
15 for the record state your name and business address.

16 A. My name is David G. Tucek. My business
17 address is 1275 Century Tel Drive, Suite 306,
18 Wentzville, Mississippi 63385. For the benefit of the
19 recorder, Wentzville is spelled W-E-N-T-Z-V-I-L-L-E.

20 Q. Thank you. And, Mr. Tucek, did you file in
21 this case direct testimony and several of the exhibits
22 that have been numbered Exhibit T-220, Exhibit 221,
23 Exhibit 222, and Exhibit 223C?

24 A. I did.

25 Q. Do you have any changes to your testimony or

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1 exhibits?

2 A. I have one small change to my testimony.

3 Q. Could you read that change into the record,
4 please.

5 A. On page 2, line 12, after the word, service,
6 you should insert, and access, and for access, excuse
7 me.

8 JUDGE SCHAER: So page 2, line 12, for basic
9 residential service and for business exchange service.

10 THE WITNESS: No.

11 JUDGE SCHAER: Okay.

12 THE WITNESS: The entire sentence would read:

13 The purpose of my testimony is to
14 sponsor the company's total service long
15 run incremental cost TSLRIC studies for
16 basic residential service and business
17 exchange service and for access.

18 JUDGE SCHAER: Thank you.

19 BY MR. CARRATHERS:

20 Q. Thank you. Are there any other changes?

21 A. No.

22 MR. CARRATHERS: Your Honor, at this time I
23 would like to offer into evidence Exhibits T-220,
24 Exhibit 221, 222 and 223C.

25 JUDGE SCHAER: I have a question. Should the

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1 two items that you distributed that are printouts of
2 portions of 223C be included with that exhibit, or
3 should they be held and treated as cross exhibits? Has
4 counsel discussed that?

5 MR. KOPTA: We have not discussed that, Your
6 Honor, and I think it might be easiest to perhaps
7 designate them separately even though they are a portion
8 of an exhibit that has been provided at least to the
9 parties electronically. I believe it has been provided
10 to the Commission at least in one hard copy. But just
11 for ease of reference as far as briefing and so the
12 Commission knows what we're talking about, I'm not sure
13 how I would cite this, it might be easiest to designate
14 them separately, but I will leave it to Verizon to say
15 what they think.

16 JUDGE SCHAEER: Is that fine with you?

17 MR. CARRATHERS: Pardon?

18 JUDGE SCHAEER: Is that fine with you?

19 MR. CARRATHERS: Oh, that's fine, sure, makes
20 sense, let's designate them separately.

21 JUDGE SCHAEER: Okay. So at this point, offer
22 Exhibit T-220 and Exhibits 221, 222, and 223C, is there
23 any objection?

24 MR. KOPTA: Not an objection, Your Honor, but
25 I believe there's a notation in our exhibit list that

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1 initially this testimony was stricken in the 5th
2 supplemental order but was going to be reoffered
3 pursuant to the Commission's 7th supplemental order, and
4 I believe that there were some restrictions or
5 guidelines, and so my assumption is that by admitting
6 these exhibits that that will be the intent is to have
7 them admitted to the extent permitted by the
8 Commission's prior orders.

9 JUDGE SCHAEER: Is that your understanding as
10 well?

11 MR. CARRATHERS: Yes, Your Honor, that is my
12 understanding, and specifically my understanding is this
13 case was -- this portion of the case was not to address
14 rate rebalancing and the increase of local rates, and
15 therefore Mr. Tucek's testimony can not be by Commission
16 order used for those purposes.

17 JUDGE SCHAEER: So those documents are
18 admitted.

19 Did you have anything further?

20 MR. CARRATHERS: Well, are we separately
21 numbering, or did we do that and I missed it, the two
22 documents you want to use or AT&T wants to use?

23 JUDGE SCHAEER: I didn't, we could do that
24 now, I was just going to do that when Mr. Kopta brought
25 them up.

0751

1 MR. CARRATHERS: Oh, I'm sorry.

2 MR. KOPTA: My questions will all focus on
3 both of these documents, and so if we want to give them
4 a number now, then that might be the easiest thing to do
5 to make sure that the record is clear.

6 JUDGE SCHAER: Okay.

7 It appears looking through the exhibit lists
8 that in the 200 series we have unused numbers at 249 and
9 250, so shall we give these those numbers?

10 MR. KOPTA: On the exhibit list there are
11 blanks for 227, 228, and 229. Am I misreading
12 something?

13 JUDGE SCHAER: I'm sorry, there are those, so
14 let's look at 227 and 228. Which one do you want
15 numbered which way, please?

16 MR. KOPTA: Either would be fine. You will
17 notice that the first document I'm going to use is the
18 one that says GTE on the front of it, so that ought to
19 be 227, but there are confidential pages.

20 JUDGE SCHAER: Okay, and are you asking that
21 the entire exhibit be treated as confidential?

22 MR. KOPTA: I am not. I have designated or
23 copied on pink paper those pages that are designated as
24 being confidential, so I am attempting to respect
25 Verizon's designation of confidentiality. My only

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1 concern is just to make sure in keeping with the
2 convention that we have established that if this is
3 going to be Exhibit 227, then Exhibit 227C or a-C would
4 be the confidential portion of this particular document.

5 JUDGE SCHAER: So I'm going to identify as
6 Exhibit 227 the document page number 16033 that says GTE
7 sales, marketing, and advertising analysis, and I'm
8 going to mark for identification as Exhibit 227a-C pages
9 from 16039 to 16042 and page 16208 of the document that
10 is included in the record at this point as Exhibit 223.

11 MR. KOPTA: Thank you. And then the separate
12 document that is part two, end user billing, we would
13 suggest that that be numbered for identification as
14 Exhibit 228.

15 JUDGE SCHAER: Okay, I'm going to mark for
16 identification a multipage document starting with page
17 18031 that reads part two, end user billing.

18 MR. CARRATHERS: Your Honor, if I may just
19 confirm with my witness whether there is any
20 confidential information that may have been overlooked
21 in Exhibit 228.

22 JUDGE SCHAER: Go ahead, please.

23 Let's go off the record for a moment to allow
24 you to consult with your client, Mr. Carrathers.

25 MR. CARRATHERS: Thank you, Your Honor.

0753

1 (Discussion off the record.)

2 JUDGE SCHAER: At this time, we will let
3 Mr. Carrathers report on his discussion of whether one
4 of the documents contains confidential material.

5 MR. CARRATHERS: Thank you, Your Honor, the
6 document that has been marked Exhibit 228 does include
7 confidential material. Verizon inadvertently failed to
8 put the word privileged and confidential on it when the
9 diskettes I guess were being created, because we
10 submitted the exhibit electronically. So if we could,
11 please, would anyone object to just marking that 228C?

12 JUDGE SCHAER: We can mark it as 228C, and
13 then what I will want you to do is provide a corrected
14 copy that is colored that does have the proper
15 designations on it. I note that the pink pages on the
16 previous exhibit do say GTE confidential at the bottom.

17 MR. CARRATHERS: That's correct, Your Honor.

18 JUDGE SCHAER: Something like that would be
19 very useful.

20 MR. CARRATHERS: We will do that, we
21 apologize again for that.

22 CHAIRWOMAN SHOWALTER: You also need to
23 follow up on how that disk has been treated in our
24 records and make sure that it has not been.

25 MR. CARRATHERS: We will, Your Honor, thank

0754

1 you. I believe that the disk itself was treated as
2 confidential, but we will certainly double check on
3 that, thank you.

4 JUDGE SCHAER: Okay, let's go ahead,
5 Mr. Kopta.

6 MR. KOPTA: Thank you, Your Honor.

7

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

9 BY MR. KOPTA:

10 Q. Good afternoon, Mr. Tucek. Let's start with
11 what's been marked for identification as Exhibits 227
12 and 227a-C, and I will represent to you that I have
13 printed pages from Exhibit 223C, and this is a portion
14 of that exhibit. Do you recognize these pages as coming
15 from that exhibit?

16 A. Yes, I do.

17 Q. Did you conduct this analysis?

18 A. No, I did not.

19 Q. Is this analysis used in determining the
20 portion of the price floor for toll services in this
21 proceeding?

22 A. Yes, it is.

23 Q. If you would please turn to -- all of the
24 page numbers that I give you in this exhibit will be to
25 the bate stamp number, which starts with a 16. So if

0755

1 you would please turn to page 16035, and specifically I
2 want to direct you to the first bullet paragraph on that
3 page, and these bullet points refer to the approach
4 that's used in this analysis. And under that bullet
5 point, it says, obtained the 1997 approved budget August
6 outlook. Am I correct that the numbers in this analysis
7 are from a 1997 budget?

8 A. Yes, you are.

9 Q. So this is not actual data, but budgeted
10 data?

11 A. That is correct.

12 Q. And was this study or analysis conducted in
13 1997?

14 A. No, it was not. I think it was conducted in
15 1998, part of the round of UNE filings we were going
16 through. This is the same study that we used in a
17 compliance filing in the latest UNE docket in Washington
18 state. Obviously different factors for access than for
19 toll.

20 Q. Farther down on that page under Washington,
21 the second bullet point, that bullet point states:

22 Based on interviews and surveys with
23 appropriate client personnel, estimates
24 of the Washington jurisdictional
25 percentages were determined.

0756

1 Am I correct that you used interviews with
2 individuals as a basis for establishing the
3 jurisdictional percentages in this analysis?

4 A. Yes.

5 Q. And --

6 A. May I correct my answer?

7 Q. Sure.

8 A. If you read the next bullet point down, if
9 the interview resulted in a variance from the
10 jurisdictional percentages, I believe in the CAM they
11 used the interview percentage.

12 Q. And how are those other jurisdictional
13 percentages that you have compared this to determined?

14 A. CAM is the cost accounting -- cost allocation
15 manual. I don't know how that's determined. It's how
16 we jurisdictionalize our costs among states and I assume
17 between interstate and intrastate.

18 Q. Okay. And if you would turn to the next
19 page, which is 16036. This is if you count literally
20 the fifth bullet point. Again it states:

21 Based on interviews and surveys with
22 appropriate client personnel, estimates
23 of the regulated intrastate percentages
24 were determined.

25 Is this basically the same thing you and I

0757

1 just talked about in terms of how --

2 A. The same result, percentage differed
3 materially from the CAM, they used a percentage based on
4 the interview.

5 Q. And the same for the second bullet point up
6 from the bottom, which is for estimates of sales,
7 marketing, and advertising percentages?

8 A. That is correct.

9 Q. And finally on the next page, 16037, the
10 first bullet point under recurring/nonrecurring, same
11 thing here?

12 A. Yes.

13 Q. Now if you would please turn to the first
14 page of Exhibit 227a-C, which is the confidential
15 portion of this document.

16 A. (Complies.)

17 Q. And if you would look on the entry on the
18 left-hand side about halfway down, I'm assuming that
19 this is not confidential but that the numbers are. I
20 don't want to say it unless you confirm that that's the
21 case.

22 A. I will confirm that.

23 Q. Okay, thank you.

24 A. Just the numbers.

25 Q. Right. Message toll service/zone usage

0758

1 measurement service, and then there's a bunch of numbers
2 to the right of that. Is this the line of numbers and
3 percentages that you have used in your imputation study
4 or that Mr. Dye has used in his imputation study?

5 A. I will have to check. I think the answer is
6 yes. Yes, Mr. Dye used the sum of those three factors.
7 The factors are available as a percent of revenues. We
8 applied it against the revenue.

9 Q. And that was my next question. In the middle
10 column, there is a designation that I believe says
11 revenue equals units, and my question was what that
12 represents, what are those numbers?

13 A. Those are revenues for each of the service
14 categories listed on the left hand, left-hand column.

15 Q. So there would be a, even though there isn't
16 one here, there would be a dollar sign in front?

17 A. That is correct.

18 Q. Okay. Now if you would please turn to the
19 next page, page 16040, and I want you to look at the
20 first number on this page, which is under the column
21 consumer adjusted SMA reg wa dollars. Do you see what I
22 -- I don't want to give you the number obviously, do you
23 see where that number is?

24 A. Yes.

25 Q. To the left there's a tic mark, which is with

0759

1 a capital B underneath it?

2 A. Yes.

3 Q. And the tic mark explanations down below, is
4 that confidential?

5 A. The footnote for the tic mark, no, that's not
6 confidential.

7 Q. This number comes from the consumer
8 spreadsheet and is the sales, marketing, and advertising
9 regulated recurring California dollar amount; is that
10 correct?

11 A. That's what it says. I believe it's
12 inaccurate.

13 Q. So this is a mistake, these numbers are not
14 from California?

15 A. No, if you look at the top title it says from
16 a Washington state filing. Folks use the same template
17 when they create these studies, and somebody neglected
18 to update the tic mark explanation.

19 Q. And finally if you would turn to the last
20 page of this exhibit, which is 16208, and this is one
21 page of multiple pages of interview notes, and I'm
22 specifically referencing the first indented entry. Is
23 that information confidential?

24 A. No.

25 Q. That entry states:

0760

1 Long distance, because GTE is not going
2 to wholesale long distance, it was not
3 included in this study.

4 That's no longer true is it, that GTE is or
5 now Verizon does not wholesale long distance?

6 A. Well, obviously we have Verizon Long
7 Distance. I think this was talking about the operating
8 companies. I'm not sure what the status is of Verizon
9 Northwest.

10 Q. So this -- but this refers specifically to
11 GTE, am I not correct in assuming that one would
12 substitute Verizon Northwest?

13 A. I think you should substitute Verizon
14 Northwest, yeah.

15 Q. And you just don't know whether Verizon
16 Northwest resales long distance?

17 A. I don't.

18 Q. Okay. Turning now to Exhibit 228C, again I
19 will represent that I printed these pages from the
20 electronic copies that we have of Exhibit 223C and that
21 these pages are from the billing and collection end user
22 billing costs study. Do you recognize these pages as
23 coming from that portion?

24 A. Yes, I do.

25 Q. And was this study used to determine a

0761

1 portion of the price floor for Verizon's intraLATA toll
2 service in this proceeding?

3 A. Yes, it was.

4 Q. If you will look beginning on page 18037
5 about halfway through, a recurring header, I'm assuming
6 that this is not confidential?

7 A. No, it's not.

8 Q. It says 1997 recurring cost study. Am I
9 correct that this study was conducted in 1997?

10 A. It's based on 1997 data. It was probably
11 completed early in 1998.

12 Q. Okay.

13 A. Again, it's the same study we used in a
14 compliance filing in a UNE docket.

15 Q. And if you would turn back to page 18032, the
16 second bullet point from the bottom, is this information
17 confidential?

18 A. No.

19 Q. So here as we discussed with the other
20 analysis, Verizon conducted interviews with key
21 personnel to determine relevant costing information; is
22 that accurate?

23 A. That is correct, that they would talk to
24 people, ask them by type of activities, their group,
25 their budget center engaged in, whether it was related

0762

1 to local service or to toll. If it was related to toll,
2 for example, was it something that varied directly with
3 messages, or was it something that was clearly toll but
4 was a shared or volume sensitive cost. Or with the
5 budget center just had something generally to do with
6 billing and collections activities. Mr. Dye used all
7 three of those categories in his cost study, the direct,
8 the share that is directory volume toll but not volume
9 sensitive, and then the share that is generally
10 attributable to billing and collection activities.

11 Q. Were you involved in conducting this study by
12 the way?

13 A. No, I was not.

14 Q. Would you turn to page 18039, and here we may
15 be treading on confidential information, so I will try
16 and ask my question in a way that will not reveal
17 numbers, which I'm assuming are what is confidential
18 with respect to this particular page. Am I correct?

19 A. I think if you stay away from the numbers you
20 will be fine.

21 Q. Okay. If you will look in the last full
22 paragraph, the third sentence, which reads:

23 Residential and business accounts were
24 found to represent a certain percentage
25 of the remaining bill distribution

0763

1 costs, and intraLATA toll represented
2 another percentage.

3 And I'm deleting the numbers.

4 A. I understand.

5 Q. Always like the use of the passive voice.

6 Can you tell me who found those percentages?

7 A. These would be the folks who conducted the
8 studies who talked to the people who are responsible for
9 the budget centers that were assigned to bill
10 distribution.

11 Q. And on the next page --

12 A. And just to amplify, it tells you later on
13 that the breakdown between res and bus is based on
14 current page costs, page counts for certain types of
15 bills, and then it goes on to explain with more
16 confidential numbers some of the assumptions they made.

17 Q. Right, my focus at this point is on the
18 interLATA toll portion, which is why I didn't go into
19 that. There's no comparable description for how the
20 development of the percentage for interLATA toll was
21 done?

22 A. I don't believe there is.

23 Q. The next page, which is 18040, I'm not sure
24 how I'm going to get at this without revealing
25 confidential information.

0764

1 A. Why don't you ask me to explain why the
2 intraLATA toll number is what it is.

3 Q. Okay, I will take that for now.

4 MR. CARRATHERS: I object to my witness's
5 helping out Mr. Kopta.

6 MR. KOPTA: Well, if he's asking the
7 question, can I give the answer?

8 JUDGE SCHAEER: You don't get to give the
9 answer.

10 A. This page and the next page you're going to
11 have the same question.

12 BY MR. KOPTA:

13 Q. You anticipated my question, both of them,
14 very well.

15 A. Yes. Have to do with the actual collection
16 of customer money, okay, people pay their bills, it's
17 the work activities done to collect the payments,
18 process them, deposit them, so on like that. The two
19 categories are remittance processing services and
20 cashiering. This study takes the assumption that
21 whether somebody subscribes to intraLATA toll or not and
22 he's your customer, you're going to process his bill, so
23 all of those expenses are assigned to local service. By
24 deduction you can figure out why the number for
25 intraLATA toll is what it is.

0765

1 Q. Okay, I'm glad you said it the way that you
2 said it and I didn't ask it that way. So am I correct
3 that this particular study reflects Verizon's view that
4 only the costs that Verizon believes it incurs in
5 addition to whatever costs it incurs to bill its local
6 customers has been attributed to intraLATA toll?

7 A. Can you restate the question?

8 Q. Sure. This study reflects Verizon's position
9 that the billing and collection costs attributable to
10 toll are only those costs that Verizon incurs in
11 addition to those that it already incurs to bill and
12 collect from its local customers?

13 A. That is only partially true. This particular
14 two pages we're talking about certainly reflects that.
15 The essence of an incremental study is you read the
16 meter at one point, you change something, in this case
17 the number of intraLATA toll messages are -- affect
18 whether you're going to bill and collect and see what --
19 see what the change is when you read the meter again.
20 In this case we're not going to incur any more or less
21 of these types of expenses if we're happening to be
22 billing intraLATA toll on an individual customer's bill.
23 You're going to have to cash his check whether it's for
24 \$20 for local service or \$25 for local service plus his
25 toll.

0766

1 The rest of the study does not necessarily do
2 that. As I pointed out, there are basically three
3 categories of cost that the expenses or costs are
4 categorized into. One are direct and vary directly with
5 the number of message volumes. Example of that is the
6 cost of rating a message, those are direct costs or a
7 subportion of that is. Some are shared, they're clearly
8 just intraLATA toll, but they're volume sensitive, so
9 that's this document doesn't necessarily share this, but
10 they may. Then there are some that cut across billing
11 and collection activities, and they tried to assign some
12 of those to intraLATA toll.

13 So, you know, it's not that across the board
14 everything that we have put in the study is incremental
15 as I described it, read the meter, assume that you did
16 not offer or bill or collect intraLATA toll and read the
17 meter again. There are some costs in there that are
18 included even though they would not have gone away.

19 Q. And --

20 A. So the point of that long speech, and I
21 apologize for it, is that Mr. Dye has been very
22 conservative in his use of the billing and collection
23 inputs to his imputation study. He probably should have
24 just looked at the direct volume sensitive costs, costs
25 that are driven by the number of messages.

0767

1 Q. And if Verizon were to view this differently
2 as just flip that assumption around that it provides
3 toll service and it has to provide a bill for toll
4 service anyway and tack on local service on top of that,
5 these percentages would be very different, wouldn't
6 they?

7 A. I think your question answered itself. If
8 the situation changes, yes, the results of the study is
9 going to change.

10 Q. And similarly, if Verizon were providing
11 intraLATA toll services to customers that were
12 subscribed through another carrier for local service,
13 then this study would not reflect those?

14 A. These remittance processes and cashiering
15 expenses would be incurred for those customers. We have
16 had testimony earlier. I think Dr. Selwyn danced around
17 the confidentiality of that. That is a very, very small
18 slice of the customers that are presubscribed in
19 Washington intraLATA toll who do not have end user
20 service with Verizon. So even accounting for that, you
21 would not see a difference, a material difference in the
22 reporting toll cost, billing and collection cost.

23 MR. KOPTA: Thank you, Mr. Tucek, that's all
24 I have.

25 I would ask for admission of Exhibits 227,

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1 227a-C, and 228C.

2 JUDGE SCHAER: Are there any objections?

3 Those documents are admitted.

4 Ms. Singer-Nelson, did you have any

5 questions?

6 MS. SINGER NELSON: I have no questions.

7 JUDGE SCHAER: Ms. Smith, did you have

8 questions?

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

10

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

12 BY MS. SMITH:

13 Q. Good afternoon, Mr. Tucek. I would like to

14 begin at your direct testimony on pages 8 and 9, and I

15 have a question for you about how Verizon's ICM

16 calculates the forward looking incremental cost of a

17 service. Now at lines 22 and 23 of page 8, you discuss

18 how investments are converted into monthly recurring

19 costs and that those costs fall into two broad

20 categories, capital costs and operating expenses. Now

21 at the top of the next page, page 9, you describe that

22 the capital costs include both a return of and a return

23 on the investment. Now am I correct in assuming that

24 Verizon's access service cost studies also include that

25 feature?

0769

1 A. You would be correct in assuming that the
2 studies described here in the access service cost
3 studies take the authorized rate of return and the
4 authorized glives and salvage values as inputs to the
5 study and they apply them in the same way. That doesn't
6 mean that the results of the study reflect our actual
7 cost either per service or if you add it all up to the
8 company as a whole.

9 Q. Now Verizon assumes that it will recover the
10 full amount of the investment and earn a return, in this
11 case a return of 9.76%, on the investment as you state
12 on page 9, line 4; is that correct?

13 A. No, we haven't made the assumption that we're
14 going to recover the cost. The cost calculation just
15 simply gives you the number that you would have to have
16 say in the case of a line on a monthly recurring basis
17 to recover the direct cost. Again, whether you recover
18 or not those numbers or not depends on the rates, and
19 those numbers again are not the actual cost of service,
20 and they don't include common costs either.

21 Q. Is it correct to say that the numbers that
22 the company reports as the cost of access service
23 include as a component of that cost a return on
24 investment at the rate of 9.76%?

25 MR. CARRATHERS: Your Honor, I object to the

0770

1 form of the question. If counsel for Staff could please
2 clarify when she uses the word cost, does she mean the
3 long run incremental cost based on long run incremental
4 costing principles as opposed to the company's actual
5 cost as shown on its revenue requirement. I just want
6 to be sure that we're very clear.

7 MS. SMITH: LRIC, the long run incremental
8 cost, that's correct.

9 MR. CARRATHERS: Thank you.

10 BY MS. SMITH:

11 Q. If you could keep that in mind and answer the
12 question, please.

13 A. I'm afraid I've lost it, can you restate it?

14 Q. Is it correct that the figures that the
15 company reports as the long run incremental cost of
16 access service include as a component of that cost a
17 return on investment at the rate of 9.76%?

18 A. That is correct.

19 Q. Are you familiar with the cost recovery
20 mechanism included in Verizon's access charge tariff
21 that's entitled the ITAC or the interim terminating
22 access charge pursuant to this Commission's rule WAC
23 480-120-540(3)?

24 MR. CARRATHERS: Objection, Your Honor,
25 that's beyond the scope of Mr. Tucek's testimony.

0771

1 Nowhere does he discuss an ITAC.

2 JUDGE SCHAER: Ms. Smith.

3 MS. SMITH: I'm asking him if he's familiar
4 with it.

5 JUDGE SCHAER: I think it's appropriate to
6 find out if he is familiar with it, and then we'll take
7 it from there.

8 A. I have discussed it with various folks. I
9 have not read the document or the order you referenced.

10 BY MS. SMITH:

11 Q. Has anyone at Verizon asked you to produce
12 cost estimates for Verizon's ITAC access charge rate
13 element in preparation for this case?

14 A. No.

15 MS. SMITH: That's all I have.

16 JUDGE SCHAER: Okay.

17 Commissioners, did you have questions of
18 Mr. Tucek?

19 COMMISSIONER HEMSTAD: I don't.

20 COMMISSIONER OSHIE: I have no questions.

21 MS. SMITH: Your Honor.

22 JUDGE SCHAER: Yes, Ms. Smith.

23 MS. SMITH: I apologize, Commission Staff had
24 marked Cross Exhibit 226C as a cross exhibit for
25 Mr. Tucek. We didn't have questions, but we do move for

0772

1 its admission.

2 JUDGE SCHAER: Any objections?

3 Exhibit 226C is admitted.

4 Any redirect for this witness?

5 MR. CARRATHERS: Very briefly, Your Honor.

6 JUDGE SCHAER: Go ahead, please.

7

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

9 BY MR. CARRATHERS:

10 Q. First, Mr. Kopta asked you whether you
11 yourself directly prepared the cost study, and you said
12 no. Could you just very briefly explain your basis for
13 appearing here today and testifying about the study you
14 didn't prepare and whether that's appropriate or common?

15 A. I think it would be uncommon for a witness to
16 appear before this or any Commission and say that here
17 is a study that I have prepared from the ground up. We
18 have, the group I work for, is called service costs, we
19 have upwards of 300 to 400 people who are dedicated to
20 developing cost studies, cost modeling tools, collecting
21 the inputs. I play a role in making those decisions. I
22 certainly review their methodology, but there's no way
23 on this earth that any one person could do it all by
24 themselves.

25 Q. Thank you. And Mr. Kopta also pointed out

0773

1 that this study is prepared I think you answered in '98,
2 correct?

3 A. Yes.

4 Q. And Mr. Kopta went through a number of points
5 in the confidential exhibits on which that particular
6 study was based, and I would like your thoughts on
7 whether the fact it was prepared at that time would
8 change or materially change what the long run
9 incremental cost is.

10 A. Well, with respect to the billing and
11 collection study, no. If you an analysis of the
12 information that's in the study, you will see upwards of
13 45% almost, well, upwards of 45% is due, for example, to
14 data processing costs or other information systems
15 dealing with the collection and measurement of usage
16 data. Certainly since 1997 the cost of computing power
17 has gone down, so for almost half of the categories, you
18 can make strong arguments the cost component has
19 decreased. The others who I have looked at, have been
20 tried to figure out if they would go up or down, I could
21 come up with equally plausible arguments as why there
22 may be factors that would increase or decrease. I would
23 conclude from that for those factors in the main they
24 would offset and that the billing and collection costs
25 presented in our case here if updated would go down.

0774

1 Q. And finally, Mr. Tucek, Staff counsel did ask
2 you about do your cost studies reflect the investment
3 and the Commission approved rate of return. You are
4 not, just to clarify for the record, not purporting to
5 suggest that the LRIC studies are the same thing as a
6 revenue requirement for a company, are you?

7 A. No, I'm not, quite to the contrary, as I
8 indicated earlier. If you took the total long run
9 incremental costs for all of our services and added them
10 all up, you would not get the actual operating cost of
11 the company.

12 MR. CARRATHERS: Those are all the questions
13 I have, thank you, Your Honor.

14 JUDGE SCHAEER: Is there anything further for
15 this witness?

16 Thank you for your testimony.

17 THE WITNESS: Thank you.

18 JUDGE SCHAEER: Okay, let's take a quick five
19 minute recess to allow the next witness to assume the
20 stand.

21 (Recess taken.)

22 JUDGE SCHAEER: It appears a new witness has
23 taken the stand. Would you raise your right hand, sir.

24

25

0775

1 Whereupon,

2 TERRY R. DYE,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5

6 JUDGE SCHAER: Your witness is sworn.

7 MR. CARRATHERS: Thank you, Your Honor.

8

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

10 BY MR. CARRATHERS:

11 Q. Good afternoon, Mr. Dye, can you please state
12 your name and business address for the record.

13 A. My name is Terry R. Dye. My business address
14 is 600 Hidden Ridge Drive, Irving, Texas 75038.

15 Q. Thank you. And did you file direct and
16 surrebuttal testimony and exhibits that have been marked
17 as T-230-R, 231C, 232C, 234, and I'm sorry, excuse me,
18 232C and T-234-C-R?

19 A. Yes.

20 Q. Thank you. Do you have any changes or
21 corrections to the testimony or exhibits?

22 A. No, I don't.

23 MR. CARRATHERS: Thank you.

24 Your Honor, at this time, I would like to
25 move into evidence into the record the Exhibits T-230-R,

0776

1 231C, 232C, T-234C-R.

2 JUDGE SCHAER: Are there any objections?

3 Hearing none, Exhibits T-230-R, 231C,

4 T-234C-R are admitted, and Exhibit 232C is also

5 admitted.

6 Go ahead, please.

7 MR. CARRATHERS: Your Honor, just again to

8 clarify for the record, there was one additional

9 exhibit, I believe it was marked 235C, and that was

10 stricken as a result of one of the orders in the case.

11 I don't recall which one.

12 MS. SINGER NELSON: 7.

13 MR. CARRATHERS: Thank you.

14 JUDGE SCHAER: And?

15 MR. CARRATHERS: We will be including that in

16 our offer of proof later on. Thank you, I apologize.

17 JUDGE SCHAER: Quite all right.

18 MR. CARRATHERS: The witness is available for

19 cross-examination, thank you.

20 JUDGE SCHAER: Okay, Mr. Kopta, did you have

21 questions of this witness?

22 MR. KOPTA: I have discussed this with

23 Ms. Smith, and she is going to go first.

24 JUDGE SCHAER: All right. Go ahead,

25 Ms. Smith.

0777

1 MS. SMITH: Thank you, Your Honor.

2

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

4 BY MS. SMITH:

5 Q. Good afternoon, Mr. Dye.

6 A. Good afternoon.

7 Q. Are you generally familiar with the data
8 request that Verizon propounded to the Commission Staff
9 in this case in a general sense?

10 A. Which one?

11 Q. Well, how about what's been marked as Exhibit
12 120 that you should have before you that is Staff's
13 response to Data Request Number 16 from Verizon, and
14 that was a cross-examination exhibit that the company
15 had distributed for the cross-examination of Tim
16 Zawislak.

17 A. Exhibit what?

18 Q. It's marked in this docket as Exhibit 120.

19 A. Oh, yes.

20 Q. I think your counsel handed it to you before
21 you took the stand.

22 A. Yes, I have it.

23 Q. Have you seen that data request response
24 before?

25 A. Yes, I have.

0778

1 Q. In your opinion, does that data request
2 response fairly reflect the Commission Staff's
3 description and depiction of the revenue benchmarks that
4 Staff used in its calculation of the total level of
5 universal service support necessary for Verizon, as you
6 understand it? And I'm not asking you to agree with it,
7 I'm just asking you whether that depicts Staff's
8 position as you understand it?

9 A. If I understand your question right, the
10 answer would be no. But I understood your question to
11 be Staff's depiction of Verizon's universal service
12 requirements, and then the answer would be no. This is
13 a depiction of the Staff's revenue benchmark that is
14 used in the calculation of the ITAC. I can only assume
15 that's the Staff's depiction of the revenue benchmark,
16 because that's Staff's response to the data request.

17 Q. Thank you, Mr. Dye. I don't think I answered
18 my question as well as I should have, but you answered
19 it the way I had anticipated, so I will go to my next
20 question.

21 That exhibit states Staff's -- the benchmarks
22 or what the benchmarks should be from Staff's
23 perspective. What are the appropriate benchmarks from
24 Verizon's perspective?

25 MR. CARRATHERS: Objection, Your Honor, that

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1 is not part of Mr. Dye's testimony.

2 JUDGE SCHAER: Ms. Smith.

3 MS. SMITH: If I can have a moment to
4 respond, I will point to a place in the record where we
5 believe he does testify with respect to this issue.

6 JUDGE SCHAER: Go ahead, take a moment.

7 MS. SMITH: Yes, I would like to direct the
8 Bench and counsel to Mr. Dye's direct testimony at page
9 8, lines 4 through 9, and lines 1 through 2 as well.

10 MR. CARRATHERS: Your Honor, I'm sorry, what
11 was that citation again, I apologize?

12 MS. SMITH: Page 8, lines 1 through 9. And
13 in that testimony, Mr. Dye is taking issue with
14 Mr. Zawislak's use of \$31 and \$51 revenue benchmarks. I
15 would like to explore with this witness what he thinks
16 the proper benchmark should be.

17 JUDGE SCHAER: Okay. I have heard the
18 objection, I have heard the response. Did you have any
19 brief response to that? Your objection was that there
20 was no reference to this in Mr. Dye's testimony, as I
21 recall it.

22 MR. CARRATHERS: Mr. Dye's testimony was not
23 -- he did not present a new revenue benchmark. He was
24 pointing out that Mr. Zawislak double counts. But if
25 that is the question and foundational lead up to it,

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1 then I withdraw the objection, because it is a part of
2 his testimony.

3 JUDGE SCHAER: Go ahead, Ms. Smith.

4 BY MS. SMITH:

5 Q. Mr. Dye, do you have the question on your
6 mind?

7 A. Well, if I could rephrase or paraphrase the
8 question as I understand it is.

9 Q. Perhaps I can reask the question, and then
10 maybe you can answer the question that I ask.

11 A. Okay.

12 Q. And that is, Mr. Zawislak had given revenue
13 benchmarks of \$31 for residential and \$51 for business.
14 And my question to you is, what are the appropriate
15 benchmarks from the company's perspective?

16 A. Well, I didn't presume to -- I didn't develop
17 a revenue benchmark in my testimony, nor did I propose
18 one. Perhaps the revenue benchmark should be the actual
19 revenues that the company receives rather than --

20 MR. CARRATHERS: Objection, Your Honor, at
21 this point again counsel asked what does Verizon think
22 the revenue benchmark should be, and let me just take a
23 moment, the revenue benchmark --

24 JUDGE SCHAER: Mr. Carrathers --

25 MR. CARRATHERS: Well, then I would object,

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1 Your Honor, on relevancy grounds.

2 MS. SMITH: I am cross examining the witness
3 on something that is found in the witness's testimony.
4 Mr. Dye is taking issue with Mr. Zawislak's use of
5 certain revenue benchmarks. I would like to know from
6 Mr. Dye what the company believes the revenue benchmarks
7 should be.

8 MR. CARRATHERS: For the record, Your Honor,
9 Verizon does not object, and this is the issue I have
10 been trying to explain, does not object to
11 Mr. Zawislak's use of those \$31 and \$51 figures, because
12 they were, in fact, the figures that this Commission
13 established in USF docket. All he is saying is pointing
14 out that with Mr. -- well, I will let him speak to it.

15 JUDGE SCHAER: Mr. Carrathers, yeah, I think
16 I would like to hear from the witness, because when I
17 look at the testimony cited on page 8, it appears to me
18 that he is critical of the benchmarks that Mr. Zawislak
19 proposed in the data request response that has already
20 been reviewed, and I think it's appropriate to allow
21 Ms. Smith to ask her questions and get answers from the
22 witness.

23 MR. CARRATHERS: Thank you, Your Honor.

24 JUDGE SCHAER: Go ahead, please, Ms. Smith.

25 MS. SMITH: I'm just still waiting for the

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1 answer, thank you, Your Honor.

2 A. Could you repeat the question again?

3 BY MS. SMITH:

4 Q. Yes. The question is, with respect to the
5 revenue benchmarks suggested by Staff of \$31 for
6 business and \$51 for -- or \$31 for residence and \$51 for
7 business that you see on Exhibit 120, my question to you
8 is, what are the appropriate benchmarks from Verizon's
9 perspective?

10 A. That would depend on what you -- how you use
11 the -- how you use the revenue benchmark, and let me
12 clarify that. For instance, in Exhibit 120 there is a
13 number of toll and access \$7.50 for residence and \$10.50
14 for business. If that revenue in that category, for
15 instance, in this specific instance includes revenues,
16 for instance, associated with the interstate access
17 support that goes into the interstate access revenue
18 bucket, then the revenue benchmark could be \$31 and \$51
19 as long as you didn't then deduct it from the support
20 you calculated. My point in my testimony was that you
21 double count the revenues if it's used in establishing
22 the revenue benchmark, you calculate the support using
23 that revenue benchmark, and then you deduct the revenues
24 that you're receiving from the support you have
25 calculated. All I'm saying is that you can't have the

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1 revenue in both places. You can't use the revenues in
2 the benchmark, calculate the support, and then again use
3 the same revenues to reduce the support. That is just
4 -- it's just wrong.

5 Q. And, Mr. Dye, Tim Zawislak or Mr. Zawislak in
6 answering the Data Request 16, which is Exhibit 120,
7 used \$31 for residence and \$51 for business, does
8 Verizon have any numbers it could throw out as
9 benchmarks, any figures at all?

10 MR. CARRATHERS: Your Honor, if I may, at the
11 risk of incurring the wrath, object again because
12 clearly Mr. Dye does not purport to throw out, and if
13 his testimony did it would be there, any revenue
14 benchmark.

15 JUDGE SCHAER: Why don't we let Mr. Dye say
16 what his answer is to this question and then keep
17 moving.

18 Do you recall the question, sir?

19 THE WITNESS: Yes, I do.

20 JUDGE SCHAER: Go ahead.

21 A. If the -- I mean the Commission used and
22 established the \$31, or didn't establish it but used the
23 same revenue benchmark that the FCC used at the time it
24 established the ITAC. It used that universally across
25 the industry in establishing that benchmark. If the

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1 Commission were going to generically review the ITAC and
2 establish some different revenue benchmark based upon
3 more current revenue data, then it would do so.

4 I haven't -- I haven't calculated what the
5 revenue per access line that Verizon currently receives
6 in actual dollars in those categories to establish a
7 revenue benchmark. I haven't done the calculation.
8 But, you know, if the Commission were to go through and
9 do it generically for Washington, they would be free to
10 do so. I just haven't done it.

11 BY MS. SMITH:

12 Q. You state at page 3, line 6, that the ITAC,
13 Verizon's ITAC, should be .04742. In arriving at that
14 number, isn't it true that you did not account for the
15 newly revised subscriber line charge increases as a
16 result of the CALLS, C-A-L-L-S, plan?

17 A. I believe that would be incorrect to say I
18 didn't -- it's not accounted for. The \$31 and \$51
19 revenue benchmark that was established by the FCC
20 included the SLCs, the subscriber line charge, SLCs. It
21 included access charges. In the CALLS order there was a
22 new rate design established which moved money around.
23 It reduced the CCL, and it increased the subscriber line
24 charges, and it created interstate access support
25 mechanisms to maintain revenue neutrality. So the

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1 subscriber line charges that were established under the
2 CALLS program and the reduced carrier common line
3 charges together more or less maintained the revenue
4 benchmarks. So the calculation maintaining the same \$31
5 and \$51 benchmark certainly accounted for any shifts in
6 the revenues associated with the CALLS order. So yes,
7 it did.

8 Q. Is Verizon Northwest an eligible
9 telecommunications carrier in the state of Washington?

10 A. Do you mean eligible to receive universal
11 service support?

12 Q. That's correct.

13 A. I would believe so, yes.

14 Q. Is it your position that this Commission can
15 not consider total universal service support in order to
16 look at each exchange and see whether that exchange is
17 high cost or not?

18 MR. CARRATHERS: Excuse me, Your Honor, could
19 counsel please clarify what she means by total universal
20 service support? There are many different sources of
21 funding, and I think it would be helpful to identify
22 precisely.

23 JUDGE SCHAEER: And what's your objection?

24 MR. CARRATHERS: The question was not clear.

25 JUDGE SCHAEER: Ms. Smith.

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1 MS. SMITH: I think my question -- if I can
2 rephrase it.

3 BY MS. SMITH:

4 Q. I said total universal service support, and I
5 should have said total universal service cost in order
6 to look at each exchange to see whether or not that
7 exchange is high cost or not, and by cost I mean
8 unseparated costs and benchmarks.

9 A. Well, this Commission has established in
10 previous cases or at least whenever it initiated the
11 ITAC order it established a cost that it used for
12 determining the ITAC, and that's the same cost that
13 Staff used. They didn't -- they didn't change the cost
14 numbers in the calculation that Mr. Zawislak -- I knew I
15 was going to have trouble with that -- which Tim did in
16 his --

17 Q. That's why we call him Tim Z.

18 A. Which Tim Z did in his calculation, but if
19 you're talking about some other cost measure aside from
20 the one that this Commission has adopted for ITAC
21 purposes, I might be a little confused.

22 MS. SMITH: That's all we have, thank you.

23 JUDGE SCHAEER: Ms. Singer-Nelson?

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

25 JUDGE SCHAEER: Mr. Kopta?

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1 MR. KOPTA: I don't have any questions, thank
2 you.

3 JUDGE SCHAER: Commissioners, do you have
4 questions for Mr. Dye?

5

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

7 BY CHAIRWOMAN SHOWALTER:

8 Q. Well, I am trying to rifle through
9 Mr. Zawislak's testimony to see what his rebuttal of
10 your double counting criticism was, and I'm having
11 trouble finding it, so perhaps you could tell me, are
12 you aware that he rebuts your claim of double counting
13 in his rebuttal testimony?

14 A. Well, he attempts to. I don't really follow
15 his argument other than my belief that he confuses the
16 interstate access support that Verizon receives, I
17 believe he confuses that with universal service support.
18 I believe that's the confusion. The universal service
19 support, which is what I attempt to explain in my
20 testimony on page 7, that there is a difference, and the
21 FCC tried to highlight the difference in that quote I
22 make of the FCC's CALLS order, that this interstate
23 access support that they established and for which
24 Verizon receives is distinctly different from the
25 universal service support that the FCC established to be

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1 used by the states to maintain affordability of local
2 exchange rates. It's a different fund, its purpose is
3 different, and its use is a different set of money.

4 The interstate access support, like I said,
5 was established in the CALLS order. What it did is the
6 CALLS order shifted revenues out of interstate access
7 charges and allowed the, within the access charge
8 framework, shifted money to subscriber line charges
9 while the subscriber line charges are capped at a
10 certain level. And if the shifting of access charge
11 revenues would cause the subscriber line charge to
12 exceed the cap, they established this interstate access
13 support within the framework of interstate access
14 charges. It wasn't to support high cost loops, it was
15 to support interstate access charges, to allow them to
16 reduce switched access rates, maintain the subscriber
17 line charges at their capped levels, and then the
18 funding mechanism would in effect make up the difference
19 within the interstate access charge framework. It is
20 not universal service support, which is a different
21 funding mechanism, a different fund, a different way of
22 calculating it, and it's specifically targeted to high
23 cost areas. This money is not.

24 Q. All right. Well, then on page 8, lines 4 to
25 9 where you claim there's double counting.

0789

1 A. Right.

2 Q. There are two things that confuse me. One is
3 on line 7 you say this flaw could be remedied by
4 reducing the revenue benchmarks to reflect the reduction
5 of \$21 Million, and then you say, but there would be no
6 point in doing so in this case, because the resulting
7 ITAC would be mathematically the same, and there's
8 obviously something implicit there that needs to be made
9 explicit for me.

10 A. Yeah. I was trying -- I perhaps was a little
11 too implicit whenever I was asking Staff's question
12 about Exhibit 120 where I said you, for instance, if you
13 had access charges at a level of \$10 and you lowered
14 access charges to \$7 and established this fund that was
15 \$3 per line and you didn't -- you could either -- you
16 could either change the revenue benchmark by \$3, lower
17 the benchmark, which in the context of the ITAC
18 calculation would result in more universal service
19 requirements because the revenue benchmark is now lower,
20 and then take the \$3 in revenues and use it to offset
21 the universal service support requirement and end up
22 with the same number you would have had you left the \$3
23 within the benchmark and not lowered the benchmark in
24 the first place.

25 So that's essentially what is happening, and

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1 Staff's adjustment maintains the revenue benchmark at
2 the same level, because in effect they're keeping the
3 interstate access support within the revenue benchmark
4 number. But then they're also using it to offset the
5 universal service requirements, so they're using the
6 same dollar numbers, same revenues, they're using it
7 twice, one to keep the revenue benchmark where it was
8 because the CALLS order was revenue neutral and didn't
9 really change anything, just shifted things around in
10 buckets, and then they're also using it to offset it, so
11 it's double count. It could be remedied by lowering the
12 benchmark, increasing the ITAC, and then using the
13 money, but it results in the same thing, it's not
14 changing it.

15 Q. Okay, I'm following the logic of what you
16 say.

17 Then on line 13, you give a corrected amount,
18 I gather you're saying if there were no double counting?

19 A. Right.

20 Q. And the corrected amount is \$.04742. My
21 question is, what is the delta there, that is, if there
22 is overcounting, what is the delta change in the ITAC?

23 A. In the rate, the rate today is 3.2 cents, I
24 believe.

25 MR. CARRATHERS: For everyone's convenience,

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1 it's page 6 of Exhibit T-230-R, line 16.

2 A. Yeah, the current ITAC rate is .0323794, so
3 the delta would be about a penny and a half from what it
4 is today.

5 CHAIRWOMAN SHOWALTER: Thank you, I have no
6 further questions.

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

9 COMMISSIONER OSHIE: Make it three.

10 JUDGE SCHAER: Any further questions?

11 MS. SMITH: I don't have a further question,
12 but I move for the admission of Exhibit 237 and Exhibit
13 238C.

14 JUDGE SCHAER: Any objections?

15 Hearing none, those documents are admitted.

16 Anything further, Mr. Kopta?

17 MR. KOPTA: No nothing.

18 JUDGE SCHAER: Any redirect, Mr. Carrathers?

19 MR. CARRATHERS: No, Your Honor.

20 JUDGE SCHAER: All right.

21 Mr. Dye, thank you for your testimony.

22 (Discussion on the Bench.)

23 JUDGE SCHAER: We're about to break for our
24 afternoon recess. Before we do, I would like to
25 indicate that the Commission would like to recall

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1 Mr. Zawislak to the stand briefly after that break, and
2 it may be that Mr. Dye is going to be recalled as well,
3 so neither of you gentlemen are excused from the hearing
4 at this point.

5 Yes, Ms. Smith.

6 MS. SMITH: Thank you, Your Honor, and again,
7 I apologize, I had neglected to move the admission of
8 Exhibit 236C and would like to do that at this time.

9 JUDGE SCHAER: Is there any objection?

10 MR. CARRATHERS: Just a moment.

11 MS. SMITH: It's Staff Data Request Number 36
12 to Verizon.

13 MR. CARRATHERS: Oh, no objection.

14 MS. ENDEJAN: Your Honor.

15 JUDGE SCHAER: Yes, Ms. Endejan.

16 MS. ENDEJAN: I just had a question.
17 Yesterday at the conclusion of the hearing, I failed to
18 move for the admission of the exhibits that were
19 associated with my cross-examination of Ms. Erdahl.
20 Would now be an appropriate time to take care of that
21 housekeeping matter?

22 JUDGE SCHAER: I think it might be. Hold on
23 just a moment, please.

24 Exhibits 237, 238C, and 236C are admitted.

25 And at this point, we're going to take up

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1 Ms. Endejan's offers of certain exhibits. Go ahead,
2 please.

3 MS. ENDEJAN: They would be -- they were
4 marked as Exhibits 155 through 170 in connection with my
5 examination of Ms. Erdahl. I would offer them into
6 evidence at this time.

7 JUDGE SCHAER: So we are having an offer of
8 Exhibits 155 through 170, is there an objection by
9 anyone to the admission of any of those documents?

10 Those documents are admitted.

11 Anything further before we go off the record?

12 MS. ENDEJAN: No.

13 JUDGE SCHAER: Okay, then we're breaking for
14 our afternoon recess, please be back at 3:15. We're off
15 the record.

16 (Recess taken.)

17 JUDGE SCHAER: We're back on the record after
18 our afternoon recess. Ms. Smith, did you want to recall
19 your witness to the stand, please.

20 MS. SMITH: Yes, thank you, Your Honor, the
21 Commission Staff recalls witness Timothy Zawislak to the
22 stand.

23 JUDGE SCHAER: Mr. Zawislak, let me remind
24 you that you are already under oath in this proceeding.

25 THE WITNESS: Yes.

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1 JUDGE SCHAER: Okay.

2

3 Whereupon,

4 TIMOTHY W. ZAWISLAK,

5 having been previously duly sworn, was called as a

6 witness herein and was examined and testified as

7 follows:

8

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

10 BY CHAIRWOMAN SHOWALTER:

11 Q. Good afternoon. I have a question, and
12 actually you may recall when you first testified I
13 hesitated before asking you questions, because I was
14 leafing through testimony trying to locate my question,
15 and the discussion just now with Mr. Dye reminded me
16 what it is, which is that Mr. Dye says that you are
17 double counting, and he covers that in his direct
18 testimony on page 8, and I would like your response to
19 his criticism.

20 A. Okay, sure. I believe that the way or the
21 method in which Mr. Dye has recalculated the rate would
22 actually lead to double collecting of universal service
23 support, and I referred to that somewhat in my rebuttal
24 testimony on page 12 and also in my direct testimony,
25 but there's a Footnote 9 on page 12 which includes

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1 various citations to different evidence, but I think the
2 Staff memo for Docket Numbers 970325, 981494, 981496,
3 and 981527 explains it fairly well. At that time when
4 the ITAC was first being addressed, Staff brought up the
5 issue of the possibility of double recovery of universal
6 service support because the costs are calculated on an
7 unseparated basis, so it's basically a total cost that
8 we're looking at.

9 Q. Just I want to follow this fairly closely.

10 A. Sure.

11 Q. Unseparated meaning not separated as between
12 state and federal costs?

13 A. That's correct.

14 Q. Okay. And who is doing that unseparated
15 analysis?

16 A. Okay, sure. In Docket UT-980311(a), the
17 Commission had a proceeding on the cost of universal
18 service, and it used that cost for presentation in a
19 report to the legislature regarding universal service.
20 So out of that docket, the Commission calculated total
21 cost unseparated, both intrastate and interstate
22 together, of basic service in high cost areas, and so
23 that's the total cost I'm referring to.

24 Q. Okay, but I'm just going to stop you each
25 step of the way, because I want to understand this

0796

1 argument, this issue. The \$31 and the \$51 that this
2 Commission established was, number one, total, that is
3 total federal and state allocated costs. Am I right so
4 far?

5 A. I will have to clarify that, the \$31 and \$51
6 were revenue benchmarks.

7 Q. Okay.

8 A. Which we compared the total cost of each
9 exchange against, and the total costs for each exchange
10 can be found in my exhibit from my direct testimony.
11 102C is the exhibit number. And column D contains the
12 exchange level cost per the Commission's order.

13 Q. All right. For example, an exchange might
14 have a cost of \$400?

15 A. In some cases.

16 Q. But another one might have an exchange or
17 another exchange might have a total cost of \$15?

18 A. Correct.

19 Q. All right. And the benchmarks reflect some
20 kind of averaging of those?

21 A. The benchmarks are what I refer to in Exhibit
22 120 from a question from Verizon explaining, you know,
23 what the individual components might be that make up the
24 benchmark, but the benchmark itself is basically what
25 customers are expected to pay on average. Some pay

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1 more, some pay less, but for purposes of supporting
2 universal service on average, the benchmark would cap
3 those costs at about that level.

4 Q. All right. But aren't the benchmarks derived
5 from some kind of calculation performed on all of the
6 exchange costs?

7 A. They could be, but in this case because
8 they're revenue benchmarks, they were not done that way.
9 In effect at the time the, you know, FCC originally set
10 these benchmarks, Mr. Dye is correct that they may have
11 somehow used an average of a nationwide average of
12 revenue for each category of customer. But from there
13 on out, I mean that was five or six years ago, but it's
14 not important that the -- that these numbers be tied
15 back in that way, at least in Staff's view. The
16 response to Exhibit 120 or the Request Number 16 from
17 Verizon indicates in the last sentence that the mix
18 there is just a hypothetical mix. Each company might
19 have a different mix, and the mix of revenues might
20 change over time. But in Staff's view, this is an
21 inappropriate level to expect customers to pay on
22 average.

23 Q. All right. But I'm really trying to move on
24 to the question of whether the benchmarks reflect access
25 revenues, do they?

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1 A. Yes.

2 Q. All right. And do they reflect all forms of
3 access revenues?

4 A. Yes, they should. And again, because each
5 company might have a different mix within that level.
6 In fact, you know, a new element that's come on line is
7 the DSL line sharing, which is one form of access, and
8 it -- I believe, you know, the FCC set that up and this
9 Commission has set rates, the -- for that example, DSL
10 line sharing, of \$1, \$1.50, that's just an estimated
11 average. Some customers might have DSL, others might
12 not, but this would be an overall average that one
13 company might expect to achieve from that revenue
14 source. They might, you know, have revenues from
15 features and access charges related to toll calling as
16 well.

17 Q. Okay. But sticking on my train of thought,
18 let's take the \$10 example that Mr. Dye gave. Let's
19 assume \$10 reflects all of the revenues, state and
20 federal. Is that an accurate way to describe his
21 example?

22 A. Yes.

23 Q. Okay. So there we are with \$10. Now what he
24 is saying is that you are recognizing the \$10, which has
25 both a \$7 component and a \$3 component, but then you

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1 take away the \$3 component on the other side of the
2 equation. That's how I understood him to say it. Is
3 that what you understood too?

4 A. Yes, and can I clarify that one?

5 Q. Well, first I just want to know if I am
6 understanding his criticism and if you agree with what
7 he said. Then I will ask for your response.

8 A. Okay.

9 Q. So is that what he is saying?

10 A. Yes, I believe that is what he is saying.

11 Q. So in the \$10, not looking -- in the \$10, \$7,
12 \$3 example, what do you say the problem is? It sounds
13 as if you are saying he's the one double counting, not
14 you. So can you explain it in the context of that \$10,
15 \$7, and \$3?

16 A. Sure. What he is saying is that the \$3 is
17 basically going down to a smaller level and that they're
18 getting new universal service funding in lieu of that
19 somehow and maybe other things too. I think he failed
20 to recognize that the subscriber line charge actually
21 went up as a result of the CALLS plan. It used to be
22 for residents like \$3.50 per month. It's an interstate
23 access charge. And so even though the per minute access
24 rates went down, the flat monthly access rates went up
25 in the interstate jurisdiction. And I think he failed

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1 to accommodate or recognize the additional revenue that
2 could also be looked at within the context of a revenue
3 benchmark. And I think, you know, my main point --

4 Q. But does that mean that the total amount went
5 up above \$10 in his example?

6 A. It may or may not. These are average
7 numbers, and the initial FCC numbers were national
8 average numbers, and so every company might have
9 different per minute access rates and even different per
10 month flat end user access rates or SLC, S-L-C, because
11 the FCC has capped those at certain levels, but
12 companies can have lower SLCs than the cap. And so each
13 company would have its own mix in Staff's theory or
14 Staff's example here, and we just believe that for the
15 sake of consistency purposes, using the \$31 and \$51
16 benchmark is fine, and, in fact, it's probably a good
17 idea, because all the other companies in the state we
18 have reviewed in that manner as well.

19 Q. Well, I'm not -- I don't know that -- I'm not
20 sure it was that he objected to the \$31 and \$51 so much
21 as using the \$31 and \$51 and additionally deducting the
22 \$21 Million, that's what he felt was a double counting,
23 and I still actually don't understand, I'm sorry to say,
24 why you feel it isn't double counting or why you feel he
25 is double counting revenue.

0801

1 A. Yeah, I think if we looked at his rate of 4
2 cents a minute, the 1.5 increase, that it would be a
3 double collection of the same support, and I think the
4 important thing --

5 Q. Because?

6 A. Oh, okay, because in back in 1998 when we
7 first established the ITAC, the ITAC was set to recover
8 the full amount of support because Verizon wasn't yet
9 collecting the new interstate access support. And that
10 could have actually been lower if we had just set it at
11 some, you know, arbitrary lower level. But because the
12 interstate system had implicit support embedded in it,
13 we didn't know what that number was, and so we agreed to
14 leave that there until at which time that support was
15 made explicit and the interstate jurisdiction has taken
16 the responsibility for that support, and so Staff
17 recommends that the state jurisdiction, you know, lower
18 its responsibility commensurate with that new support,
19 explicit support, that Verizon is now receiving from the
20 universal service administrative company or USAC.

21 Q. So are you saying that after these benchmarks
22 were established, additional support came along, or was
23 it implicit that then it got made explicit? Are you
24 saying there was additional support that came along that
25 actually means that you then have to offset that new

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1 amount from the amounts within the benchmarks on
2 average?

3 A. Yeah, I would agree with that. It's new
4 support. It's explicit support. When it was implicit,
5 we didn't know how much it was, so we couldn't deduct
6 it, but we did recommend even at the point in time of
7 the '98 memo that -- at which time, you know, the FCC
8 was still wrestling with the issues of how much the
9 states should be responsible for and how much the
10 federal jurisdiction should be responsible for, and so
11 we reserved that as a placeholder.

12 And, in fact, some companies -- in fact, if
13 you look I think at Exhibit 14, or excuse me, my Exhibit
14 14, which is Exhibit 115, it shows the changes in
15 federal funding over time, and at the, you know, point
16 in time in 1998, there was a little bit of explicit
17 federal support, and I believe Staff made an account of
18 that in Verizon's ITAC. I believe Qwest, another
19 company in Washington here, does not or has not yet
20 received any federal support. And so, you know,
21 especially in Qwest's case, that was definitely a
22 placeholder, but Verizon had a little bit of interstate
23 funding. But as you see from the year 2000 up until
24 now, the new explicit support, which is now, you know,
25 quantifiable here, is available, so Staff recommends a

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1 follow up on that.

2 Q. So is another way to put this is that the \$31
3 and \$51 benchmarks recognized or you recognized that
4 there actually was a potential double counting of
5 revenue, but you didn't know what it would be, and once
6 the amount became clear, it's necessary to deduct that;
7 is that what you're saying?

8 A. No, in fact, what I'm saying is basically
9 just keep the \$31 and \$51 revenue benchmark, because
10 each company is unique and individual, and yet it's a
11 constant benchmark we can use across all companies in
12 Washington. But what I am saying is the ITAC was set at
13 an artificially high level back in '98, and now we ought
14 to get it down to the right level now that we know how
15 much the federal support is going to be chipping in.

16 Q. All right. So is your testimony that if you
17 keep the ITAC at that artificially high level and allow
18 the new federal amount, then you're double counting or
19 you're allowing too much revenue to be collected, and so
20 you have to lower the ITAC such that it is not "double
21 counting" revenue vis a vis the new \$21 Million amount?

22 A. Yes.

23 CHAIRWOMAN SHOWALTER: Okay, I think I
24 understand your argument now, thank you. And I
25 apologize for not being able to understand it before,

0804

1 thanks.

2 THE WITNESS: Thank you.

3 JUDGE SCHAER: Mr. Carrathers, did you

4 have --

5 MR. CARRATHERS: I have very brief recross on

6 that, if I may.

7 JUDGE SCHAER: Go ahead.

8

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

10 BY MR. CARRATHERS:

11 Q. Mr. Zawislak, do you have a pen and paper up
12 there? If not, I can hand one to you.

13 A. Sure, I will take yours.

14 Q. Sure. Don't steal my pen.

15 A. No, I have a pen.

16 Q. And the way I understood this is just to go
17 through a hypothetical, so please bear with me, and the
18 numbers I use are hypothetical, and tell me, you know,
19 where I go wrong. But on the paper just put 1998 at the
20 top on one side so we're looking at --

21 CHAIRWOMAN SHOWALTER: What's that number?

22 Q. 1998, that's the year. We're back in 1998,
23 and we have a \$31 revenue benchmark, correct? That's
24 the revenue benchmark that we used in determining USF
25 support, correct?

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1 A. Yes.

2 Q. Okay.

3 A. For res.

4 Q. For res, and let's just use that as an
5 example. And I believe you testified, Chairwoman
6 Showalter asked you whether that revenue benchmark
7 included all revenues from both intra and interstate and
8 all access revenues, intra and interstate, granted an
9 average, and you replied yes, I believe, correct?

10 A. I think I may have said yes and expanded that
11 just after -- it really doesn't matter, you know, how it
12 was developed, but it, you know, at the point that we --
13 the Staff recommends that we carry it forward and that
14 we apply it uniformly to all companies in Washington.

15 Q. Sure.

16 A. And also that the mix and different revenues
17 change over time, and that's okay.

18 Q. Exactly. And again, the \$31 revenue
19 benchmark was sort of the average revenue that a
20 customer, residential customer, pays, and that includes
21 not just intrastate revenues but also, as you pointed
22 out, the interstate subscriber line charge or SLC and
23 any interstate access revenues that the local company
24 might collect; is that fair?

25 A. Sure, and there's both also features and

0806

1 intrastate access.

2 Q. Exactly. I just want to focus on the federal
3 access issue, which I think is what we're trying to get
4 to here. So again, now we're back to the \$31 benchmark,
5 the year is 1998, and again let's just assume for
6 illustrative purposes that at that time the federal
7 subscriber line charge was \$3, okay, per customer per
8 month. Now let's also assume that the average revenues
9 a local carrier would get from long distance companies
10 for interstate access charges was \$12 a month. So if we
11 look at those two numbers, 12 plus 3 is 15, and for
12 purposes of our example \$15 of that interstate access
13 was included in the \$31 revenue benchmark; do you agree?

14 A. At the time the FCC established it.

15 Q. Sure.

16 A. On a nationwide basis.

17 Q. Thank you. And that was reflected in the \$31
18 revenue benchmark that the Commission adopted, right?

19 A. And when you say Commission adopted, what do
20 you mean?

21 Q. Oh, I apologize, this Commission adopted the
22 \$31 revenue benchmark for Washington state purposes in
23 determining USF and thus the ITAC.

24 A. If you mean, you know, adopted in a rule, I
25 would say no. I know Staff has adopted it for its use

0807

1 in reviewing the companies in the state as to whether or
2 not their ITAC are at the appropriate levels.

3 Q. Are you saying, Mr. Zawislak, that the
4 Commission in calculating universal service costs using
5 a forward looking cost model did not rely on the \$31 and
6 \$51 revenue benchmarks?

7 A. Well, what I'm saying, what I explained to
8 Chairwoman Showalter, is that the costs produced from
9 980311(a) were total costs.

10 Q. Okay, so let me clarify that.

11 A. And that Staff has used a benchmark.

12 MS. SMITH: Let him finish his answer,
13 please. I think he should be entitled to finish his
14 answer to your question.

15 A. Yeah, and that Staff has --

16 JUDGE SCHAER: Go ahead, Mr. Zawislak.

17 A. And that Staff has used a \$31 and a \$51
18 benchmark in, you know, analyzing companies within the
19 state with regard to their individual ITAC rate elements
20 or universal service additives that have been
21 established or allowed through WAC 480-120-540(3).

22 Q. Okay.

23 A. Thank you.

24 Q. Thank you. Again, I apologize for cutting
25 you off, and I only have a few more questions, I will

0808

1 keep this short.

2 So in 1998 we had a \$31 benchmark, the
3 federal SLC was \$3, the average revenue generated from
4 interstate access is \$12, so under this illustration \$15
5 of the \$31 was provided by federal access charges. And
6 I thought, Mr. Zawislak, that yesterday I asked you
7 about the effect of the FCC's CALLS order, and I said,
8 didn't that reduce the interstate access charges but at
9 the same time increase other sources of support
10 including, as you said, the SLC today to achieve a
11 revenue neutral outcome, and you said yes. Do you
12 recall that?

13 A. Yes.

14 Q. Okay.

15 A. And I want to also clarify that even though
16 the FCC arrived at a revenue neutral outcome that's, you
17 know, that is what they did, but it, you know, there's
18 various ways that you can go about access charge
19 restructure.

20 Q. Okay.

21 A. I believe it was maybe negotiated between
22 companies such as Verizon and other companies in the
23 industry and presented to the FCC.

24 Q. Thank you. So sometime after 1998 then,
25 returning to my hypothetical, do you recall in '98 the

0809

1 federal SLC was \$3, the average revenues generated by
2 those higher interstate access charges was \$12 for a
3 total of \$15. And now let's assume as a result of
4 CALLS, which for purposes of this illustration assume is
5 revenue neutral, the \$12 a month generated at interstate
6 switched access charges went down to say \$8 because
7 those rates lowered, the SLC went up from \$3 to \$7, so
8 you had a \$4 a month decrease in the revenues generated
9 by interstate access because CALLS brought it down, but
10 you also had a \$4 increase in other forms of funding and
11 here we're going to call it the SLC just for purposes of
12 -- is that fair?

13 A. Sure, as long as this is just in theory.

14 Q. Okay.

15 A. Or you're making assumptions that are not
16 based on any -- the real numbers that the FCC used.

17 Q. Exactly, thank you.

18 A. Sure. And also the business also had
19 similar.

20 Q. Sure.

21 A. Puts and takes.

22 Q. Thank you. And so if in 1998 in determining
23 the federal support one receives for calculating the \$31
24 revenue benchmark, it was \$12 and \$3, and then now as a
25 result of CALLS it's \$8 and \$7, the end result is we

0810

1 still get the same amount of federal support. Do you
2 agree?

3 A. In your hypothetical how you have labeled
4 things, sure.

5 Q. And again, and I think this goes really to
6 the heart of the issue because when I cross examined you
7 yesterday we said that, you know, this change is
8 attributable to CALLS, CALLS had to be revenue neutral,
9 and Mr. Dye's criticism of you I think is exemplified in
10 the calculations I just went through. Now if you
11 disagree with that logic or if you think that we really
12 got additional federal support, I mean please feel free
13 to, you know, expand on your answer.

14 A. Sure, I believe I covered this both in my
15 direct and in my rebuttal testimony.

16 Q. You don't have to --

17 A. And I would like to reiterate it for
18 everyone. The new explicit universal service support
19 that we're trying to account for now, you know, I
20 believe I expressed to the Chair about what Staff's
21 position is on that and why there would be a double
22 collection. The access rule does allow the company to
23 propose to raise its originating rates if the
24 terminating rates need to go down, and the Commission,
25 you know, may or may not approve that based on whether

0811

1 -- if it's in the public interest or not. And I think
2 it, you know, goes into the originating question or the
3 questions about originating access in this case.

4 Q. Just one question, but under your theory, if
5 the company is indeed receiving additional incremental
6 support, then it would be double recovering by
7 increasing the originating access charge. And so I just
8 want to again come back to my fundamental position,
9 you're not claiming that the company because of CALLS
10 received additional interstate revenues, are you?

11 A. It's collecting additional or new explicit
12 support. And maybe the confusion here is when I compare
13 the cost of each exchange to the revenue benchmarks for
14 res and bus for each exchange in Exhibit 102C, it comes
15 out with a total annual amount of support, and that
16 number is confidential, but it's towards the bottom of
17 page 2 of 2 in the right-hand corner.

18 CHAIRWOMAN SHOWALTER: Page 2 of what?

19 THE WITNESS: Oh, excuse me, 2 of 2 of
20 Exhibit 102C.

21 CHAIRWOMAN SHOWALTER: I'm sorry, what was
22 the exhibit number?

23 THE WITNESS: 102C.

24 JUDGE SCHAEER: Mr. Carrathers, this brief
25 recross is taking much longer --

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1 MR. CARRATHERS: I'm through, thank you.

2 CHAIRWOMAN SHOWALTER: Well, I want to
3 understand this, so I would appreciate the
4 clarification.

5 A. At page 2 of 2 of Exhibit 102C, bottom
6 right-hand corner, column J, there is a total annual
7 support amount calculated, and I can't repeat that
8 number, but actually it's larger than the number
9 established back in '98 because of the change in access
10 lines served by Verizon in different exchanges. But the
11 total amount of support there is based on the column D
12 unseparated or total cost of basic service for each
13 exchange. And so that's a -- the amount at the bottom
14 of column J is a total annual support number that is
15 necessary for Verizon to, you know, achieve that
16 purpose.

17 And all I'm doing in Exhibit 103 and actually
18 104C, 104C I take the total amount of support based on
19 the total cost in column C, line 1, and I deduct the new
20 explicit interstate support and arrive at a new
21 intrastate support number. And I, you know, from there
22 it's just a matter of division by the number of minutes
23 that Verizon terminates in order to comply with the
24 access rule that the rate is calculated.

25 And this is really a rate design issue, it's

0813

1 not a revenue requirement issue like I think Verizon is
2 trying to make it out to be. I'm not proposing an
3 adjustment to Verizon's revenue requirement, and neither
4 is Ms. Erdahl.

5 CHAIRWOMAN SHOWALTER: Can I just interject a
6 question here.

7

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

9 BY CHAIRWOMAN SHOWALTER:

10 Q. Is what this exhibit is saying, 104C, is that
11 the total amount is what it says on row 1 under column
12 C, that you then back out the federal amount and that
13 leaves you with the in state amount?

14 A. That's correct.

15 Q. Okay, thank you.

16 A. And to not back that out would allow double
17 collection.

18 JUDGE SCHAER: I started to ask you how much
19 more you had, but apparently --

20 MR. CARRATHERS: I have no further questions.

21 JUDGE SCHAER: Did you have anything further?

22 CHAIRWOMAN SHOWALTER: Nothing.

23 JUDGE SCHAER: Did you have anything,
24 Ms. Smith?

25 MS. SMITH: No, we don't have anything else.

0814

1 JUDGE SCHAER: Commissioners?

2

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

4 BY COMMISSIONER HEMSTAD:

5 Q. I'm looking at the, let's see, I don't have
6 the exhibit number in front of me, it's supplemental
7 response to the UTC Staff Data Request 42.

8 CHAIRWOMAN SHOWALTER: It's Exhibit 115.

9 COMMISSIONER HEMSTAD: Is it 115?

10 CHAIRWOMAN SHOWALTER: It's Exhibit 115.

11 A. Okay, I have it before me.

12 BY COMMISSIONER HEMSTAD:

13 Q. And there's nothing here that's confidential,
14 is there?

15 A. The company did not mark it as such.

16 Q. And I'm not at all sure how that relates to
17 the numbers on 104C, but in any event, I'm looking at
18 these categories in the supplemental response, there are
19 four, high cost loop, lifeline, linkup, and then the
20 IAS, and I'm operating at a very macro level here, is it
21 your point or is it -- am I in focus when this under the
22 IAS the three numbers there for 2000, 2001, and 2002 is
23 essentially new revenue?

24 A. I'm going to say it's new explicit support,
25 but as Verizon has tried to explain, it was arrived at

0815

1 through the CALLS plan before the FCC. And, in fact, in
2 the year 2000 there is only half a year, so really it's
3 at the, you know, the same level pretty much each year.

4 Q. I see.

5 A. But the -- it's new explicit support meant
6 for the purpose of supporting universal service.

7 Q. And in the post CALLS environment, is that
8 substituting or replacing some substantial equivalent
9 dollar amounts, or is this new -- very simplistically
10 I'm just adding the numbers across, and without the IAS
11 the amounts vary quite a bit, but not ultimately
12 significant numbers. They're going to be from '98
13 through 2002 they vary from about, excluding IAS, they
14 vary from about 1.3 to 2.2 and vary roughly 1.3 to 2.2
15 million, but then these very large numbers are added,
16 the new IAS, and so my question is, is that new revenue?

17 A. Well, the CALLS plan added revenue through
18 this new support mechanism, and it also allowed the
19 companies to reduce their interstate switched access
20 rates, and so that revenue presumably would have gone
21 down as well as it allowed the companies to increase
22 their subscriber line charges.

23 Q. I see.

24 A. And so those revenues would have went up.

25 Q. I see. And so switched access and the SLC

0816

1 adjustments were taking place simultaneously?

2 A. Yes.

3 Q. Thank you.

4 A. And the point you bring up here with this
5 exhibit, just the various columns and categories, I
6 think it's important, because, you know, if you look at
7 like lifeline or linkup, they're individual programs in
8 and of themselves, and, you know, the FCC doesn't do a
9 rate case on Verizon to, you know, know how much to give
10 them on that, and I think the same is for IAS. It's,
11 you know, we don't need to do a rate case to figure out
12 that that's federal support and that, you know, the FCC
13 has stepped in and taken responsibility to explicitly
14 support universal service, and the state, you know, has
15 tried to do so as well through the ITAC for its share,
16 and it's a separate, you know.

17 COMMISSIONER HEMSTAD: Thank you.

18 JUDGE SCHAER: Anything further for
19 Mr. Zawislak?

20 Thank you for your testimony, you may step
21 down.

22 And the Commission would now like Verizon to
23 recall Mr. Dye, please.

24 Mr. Dye, let me remind you that you are
25 already under oath in this proceeding.

0817

1 THE WITNESS: Okay.

2 JUDGE SCHAER: Go ahead.

3

4 Whereupon,

5 TERRY R. DYE,

6 having been previously duly sworn, was called as a

7 witness herein and was examined and testified as

8 follows:

9

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

11 BY CHAIRWOMAN SHOWALTER:

12 Q. Mr. Dye, trying to get to the bottom of this

13 difference of opinion.

14 A. Yes.

15 Q. Could you please turn to Exhibit 104C, page 1

16 of 1.

17 A. I'm not sure which one that is.

18 Yes.

19 Q. All right, this is a confidential document,

20 but Mr. Zawislak's explanation for why he is not double

21 counting is that the total support required for Verizon

22 is listed on row 1, and he then backs out the amount of

23 federal support on line 2 and is left with the amount on

24 line 3. And by that analysis, it would be double

25 counting to leave in the amount on line 2, and I am

0818

1 going to ask you if you disagree with that analysis, or
2 are you just looking at things in some other way?

3 A. No, I disagree with that analysis.

4 Q. And why?

5 A. The reason I disagree is the amount on line
6 2, if you go to his previous Exhibit, the one where he
7 does his detail calculation.

8 Q. I'm not sure --

9 MS. SMITH: I believe that's 102C.

10 A. The 102C.

11 Q. Okay.

12 A. That number, that dollar amount that's on
13 line 2.

14 Q. Of Exhibit 104?

15 A. Right. Is also in the revenue benchmark in
16 the previous exhibit.

17 Q. So you're saying, are you saying the amount
18 on line 2 in Exhibit 104 went into the calculation of --

19 A. Of the \$31 and \$51 benchmark.

20 Q. Right. But then why isn't it the case if
21 that's the benchmark and that reflects total revenues
22 and some of those revenues are federal, why wouldn't you
23 back out the federal side before determining the state
24 difference or what remains at a state level?

25 A. If I could hand out an exhibit.

0819

1 Q. Okay.

2 A. Now hopefully we can clear this up.

3 JUDGE SCHAER: Before you go further --

4 THE WITNESS: Pardon?

5 JUDGE SCHAER: Before you go further, let me

6 check with Mr. Carrathers and see, is this something

7 that you're going to offer as an exhibit, is this

8 something you're showing as an illustration of the

9 testimony; what is your purpose here?

10 MR. CARRATHERS: It's probably easier to
11 offer it as an exhibit subject to cross-examination.

12 JUDGE SCHAER: Okay.

13 THE WITNESS: So if I could --

14 JUDGE SCHAER: Well, let's get this marked
15 for identification then.

16 THE WITNESS: Okay.

17 MR. CARRATHERS: Your Honor, may I confer
18 with my witness as to whether we want to take the
19 Commission's time going through this.

20 JUDGE SCHAER: Let's go off the record for a
21 moment and allow you to have that discussion.

22 MR. CARRATHERS: Okay.

23 (Discussion off the record.)

24 MR. CARRATHERS: Thank you, Your Honor, we
25 will just offer this as an illustration.

0820

1 JUDGE SCHAER: Okay.

2 MR. CARRATHERS: Thank you.

3 JUDGE SCHAER: Go ahead, please.

4 A. Now presumably this revenue, and for
5 illustrative purposes let's assume that the \$31 and \$51
6 included in the benchmark numbers on the left-hand side
7 of the column include in the toll access numbers, okay,
8 include in the \$7.50 and the \$10.50, assume for a moment
9 that those numbers include \$1 of IAS support, interstate
10 access support, and were post CALLS. So the SLC charges
11 are what they are, CALLS was revenue neutral, CALLS did
12 not generate additional revenues, the IAS is not
13 additional revenues, there's no additional money
14 associated with the IAS that did not exist before, it
15 was merely a rebalancing of rates.

16 So the \$31 and \$51 benchmark are the same
17 benchmarks that existed preCALLS and postCALLS, because
18 it just shifted money around, it didn't generate any new
19 money. So the revenue benchmarks are the same. The IAS
20 is in the interstate access numbers, it's in the \$7.50
21 and the \$10.50. There's \$1 in there. The \$31 and \$51
22 is deducted from the costs. In this example the cost is
23 \$60. So that leaves USF support of \$29 for res and \$9
24 for bus. Hypothetically you take that times the number
25 of lines and you get the USF support. In this case it's

0821

1 \$2,900 and \$450.

2 What I said in my testimony is to then use
3 again the IAS money that was in the revenue benchmark
4 and deduct it from the USF support would be a double
5 count. I said you could correct that by taking the IAS,
6 the \$1, out of the benchmark and changing the benchmarks
7 to \$30 and \$50 and then using the IAS to reduce the
8 support, but you get the same numbers. It's still you
9 end up with the same amount of support. To do otherwise
10 would be a double count. You would be counting the IAS
11 twice, once in establishing the revenue benchmark, and
12 that revenue is used to cover the unseparated costs,
13 okay, the revenue is used to reduce the universal
14 service support, the revenue is used to recover the
15 costs in the revenue benchmark, and to use the same
16 revenue again to recover the costs is a double count.
17 That's what it is.

18 CHAIRWOMAN SHOWALTER: Well, I hope we have
19 enough on the record that the parties can brief this.

20 COMMISSIONER HEMSTAD: I'm sure I can look
21 forward with great anticipation to the discussion in the
22 briefs on this issue.

23 CHAIRWOMAN SHOWALTER: But it does seem that
24 maybe we should give this illustrative exhibit a number
25 just so that it would be helpful if people are going to

0822

1 brief to focus on the same piece of paper with the same
2 number so we can have issues joined in front of us.

3 JUDGE SCHAER: I'm going to mark this as
4 Exhibit 239 for identification.

5 And are you going to offer it as an
6 illustrative exhibit?

7 MR. CARRATHERS: I will offer it, Your Honor.

8 JUDGE SCHAER: Is there any objection?

9 The document is entered into the record as an
10 illustrative exhibit.

11 Is there anything further for Mr. Dye?

12 THE WITNESS: If I could just clear up one
13 other thing.

14 JUDGE SCHAER: Well --

15

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

17 BY MR. CARRATHERS:

18 Q. Mr. Dye, would you like to clear up one other
19 thing?

20 MR. CARRATHERS: No, I apologize, Your Honor,
21 it's late. Only if the Commissioners have a question.

22 JUDGE SCHAER: Go ahead.

23 A. Tim Z. referred to his exhibit that had these
24 various columns and buckets, this high cost loop support
25 and lifeline and linkup. I don't recall what exhibit it

0823

1 was.

2 MS. SMITH: For the record, I believe that is
3 Exhibit 115.

4 A. On Exhibit 115 he was indicating that he felt
5 it was important that these revenues were bucketized,
6 and that was the point I was attempting to make
7 previously on cross-examination, that the IAS support is
8 not universal service support. The high cost loop
9 support in that column, that is universal service
10 support, that is used to support the high cost loops.

11 You see that the number zero for Verizon in
12 2000, 2001, 2002, we don't give universal service
13 support. The IAS support has a very distinct purpose,
14 and the purpose is not to support universal service,
15 it's not universal service money. It is used to support
16 interstate switched access, that's the intent of that,
17 to be a rate design tool to support the interstate
18 switched access rates.

19 So I just wanted to clear that up.

20 JUDGE SCHAER: Anything further for this
21 witness?

22 Thank you for your testimony, you may step
23 down.

24 THE WITNESS: Thank you.

25 JUDGE SCHAER: And shall we take a five

0824

1 minute stretch break to allow witnesses to take places.

2 MR. CARRATHERS: Thank you, Your Honor.

3 JUDGE SCHAER: We're off the record.

4 (Recess taken.)

5 JUDGE SCHAER: Did you wish to call another
6 witness?

7 MR. CARRATHERS: Thank you, Your Honor, our
8 final witness, Mr. Doug Fulp.

9

10 Whereupon,

11 ORVILLE D. FULP,
12 having been first duly sworn, was called as a witness
13 herein and was examined and testified as follows:

14

15 JUDGE SCHAER: Your witness is sworn,
16 Mr. Carrathers.

17 MR. CARRATHERS: Thank you, Your Honor.

18

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

20 BY MR. CARRATHERS:

21 Q. For the record, please state your name and
22 business address.

23 A. My name is Orville D. Fulp. My business
24 address is 600 Hidden Ridge Drive, Irving, Texas.

25 Q. And, Mr. Fulp, did you file direct testimony

0825

1 in this case that has been marked as Exhibit T-200-R?

2 A. Yes.

3 Q. Do you have any changes to that testimony?

4 A. No.

5 MR. CARRATHERS: Your Honor, I would like to
6 offer into evidence Exhibit T-200-R, the direct
7 testimony of Doug Fulp.

8 JUDGE SCHAER: Any objection?

9 Exhibit identified as T-200-R is admitted.

10 Did you have anything further for the
11 witness?

12 MR. CARRATHERS: No, Your Honor, I'm sorry,
13 he's available for cross.

14 JUDGE SCHAER: Mr. Kopta, did you have
15 questions of this witness?

16 MR. KOPTA: Yes, I do, thank you, Your Honor.

17

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

19 BY MR. KOPTA:

20 Q. Good afternoon, Mr. Fulp.

21 A. Good afternoon.

22 Q. I wanted to first start out with a referral
23 from Ms. Heuring this morning, and that has to do with
24 the distinction between Verizon's authorized rate of
25 return of 9.76% and what Verizon calculates as its

0826

1 current intrastate return of 2.84%. Were you in the
2 hearing room when I was asking her about that?

3 A. Yes.

4 Q. And the question that I had for her and that
5 I have now for you is, is it Verizon's position that its
6 current intrastate rates are insufficient to enable
7 Verizon to earn its authorized rate of return?

8 A. When you look at the -- the answer is yes,
9 our rates are insufficient to cover the company's total
10 costs at this time. And if you look at the information
11 in Ms. Heuring's testimony, it shows the return that
12 we're currently earning compared to our authorized
13 return. So if you look at that alone and you look at
14 the earnings that we have and you look at the rates that
15 we're currently charging, it's clear that the rates are
16 insufficient to cover the company's total costs.

17 And so again the answer is yes, and I think
18 that's why it's so critical in this docket to understand
19 the cost of the total company and to understand that
20 further reductions in one of our revenue streams, mainly
21 switched access, is going to drive those costs, total
22 company costs, down further than they already are today.

23 Q. Well, if your rates currently are
24 insufficient, why hasn't Verizon filed a rate case?

25 A. There's two reasons, and one is a timing

0827

1 issue. Number one, we are extremely concerned about our
2 earnings today, and we filed testimony to that, and
3 there's a lot of testimony filed going the other way,
4 but, you know, we have an earnings problem today. We
5 have had an earnings problem for the last year or so.
6 We were not allowed under the settlement agreement that
7 we had to do anything with rates until July of 2002.
8 AT&T filed the access complaint in April of 2002, so we
9 have a timing issue and a resource issue. Our resources
10 were then put into putting together our case for the
11 access complaint. And so at this time and in the last
12 year or so because of the timing and resource
13 constraints, we have not filed a rate case.

14 Q. Well, let me follow up on that. Have you
15 calculated the total amount of revenue reduction that
16 would result if the Commission adopted either Staff's
17 proposal or AT&T's proposal with respect to reducing
18 Verizon's access charges?

19 A. I believe that the Staff proposal was a \$32
20 Million reduction in access rates, and as I recall in
21 Dr. Selwyn's testimony it was in the \$40 Million range,
22 I believe, I don't have his testimony in front of me.
23 But I think it was \$32 Million for the Staff and \$40
24 something Million to potentially higher depending upon
25 whether we went all the way to long run incremental cost

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1 as Dr. Selwyn suggested. So it's in that range.

2 Q. And that's an annual, it would be on an
3 annual basis, \$40 Million per year, not just a one time
4 \$40 Million reduction, correct?

5 A. Right, it would be an annual hit to our
6 revenue stream.

7 Q. Well, in Ms. Heuring's testimony, I can give
8 you a specific reference if you would like, it's Exhibit
9 T-242 on page 7, specifically on the sentence beginning
10 on line 8. You may not have that, perhaps your counsel
11 can share that with you.

12 A. Okay, line 8?

13 Q. Yes. And at that point, Ms. Heuring has
14 calculated the revenue deficiency from Verizon's
15 perspective for year or at least pro forma year 2002 as
16 \$105 Million; is that correct?

17 A. That's correct.

18 Q. So is it your testimony that Verizon is
19 devoting resources to a \$40 Million case rather than to
20 a \$105 Million case?

21 A. I don't know that I would characterize it in
22 that fashion. We are devoting resources to what you
23 called the \$40 Million case, which is incremental
24 revenue deficiency over and above what's been calculated
25 here. What's happened as a part of this case is that

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1 earnings are now being looked at as a part of the
2 company's total cost, so we are addressing the total
3 earnings deficiency as a part of an access complaint
4 case. So that's why I wouldn't characterize it the way
5 you had said, because now we are talking about the total
6 cost of the company, and this shows what the current
7 revenue deficiency is aside from any access reductions
8 which would just add to that deficiency. And so again,
9 at this point in time with this case, we are having to
10 concentrate on the total revenue deficiency aside from
11 any access reductions.

12 Q. And once these hearings are over, is it
13 Verizon's anticipation to file a rate case regardless of
14 the outcome of this proceeding?

15 A. I don't think we could say regardless of the
16 outcome of this proceeding. It is a possibility that we
17 would have to file a rate case, you know, after this
18 proceeding. We have to continue to look at what's
19 happening to our financials. And so that is a
20 possibility. I guess where we are today in the dilemma
21 that we're faced with today is we haven't made that
22 decision yet. We're now sitting in an access charge
23 proceeding that's looking at lowering access rates, and
24 we're having to talk about the total company cost and
25 whether we will have contribution to cover that cost

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1 with access reductions.

2 And I think that that's the key that we're
3 faced with in this case is we have stated that reducing
4 access charges is not something that the company is
5 opposed to. If you look at the economic efficiency of
6 that, you know, you can reduce access charges, and doing
7 that would bring benefits if we could do that. What
8 we're faced with here is how do you do that. You've got
9 to look at the other side of the equation, and the other
10 side of the equation is the total company cost, and how
11 do we cover total company cost if we reduce access rates
12 which today provide a lot of contribution to local rates
13 and to our bottom line revenue requirement, how do we
14 balance those two. And I think that's the challenge
15 that we have, you know, with the Commission on getting
16 access rates lower while at the same time continuing to
17 cover our company cost.

18 And if you look at the overall case that we
19 have before us, it's not about imputation I don't
20 believe, it's not about price squeeze, and I know that
21 AT&T has made those arguments, it's about reducing
22 access rates, and AT&T wants reductions in their access
23 rates, and I can understand that. But it's also about
24 how you do the reductions in access, and are you going
25 to go to the other side, and are you going to look at

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1 the contribution, and are you going to allow the company
2 to earn a reasonable return and cover its costs. And
3 again, I think that's what we're faced with here as far
4 as this case goes.

5 Q. Well, on to more mundane topics. I would
6 like you, if you would, to refer to Exhibit 200, which
7 is your direct testimony, specifically page 11.

8 JUDGE SCHAER: Is that Exhibit 200-R,
9 counsel?

10 MR. KOPTA: It is, thank you for the
11 correction.

12 JUDGE SCHAER: Thank you.

13 BY MR. KOPTA:

14 Q. And in the sentence that begins on line 1,
15 you state that Dr. Selwyn is incorrect in his analysis,
16 specifically in his assumption that the price floor for
17 Verizon Long Distance or VLD, which is how I will refer
18 to it, is the same as the price floor as Verizon; is
19 that correct?

20 MR. CARRATHERS: I'm sorry, I missed the page
21 citation.

22 MR. KOPTA: Page 11.

23 MR. CARRATHERS: Thank you.

24 JUDGE SCHAER: Line 1.

25 MR. KOPTA: Are we all there?

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1 BY MR. KOPTA:

2 Q. Did I accurately characterize your testimony
3 at that point?

4 A. Yes.

5 Q. I want to explore that particular statement.
6 If you would look at Exhibit 219C.

7 CHAIRWOMAN SHOWALTER: 219?

8 MR. KOPTA: 219C.

9 CHAIRWOMAN SHOWALTER: Could you describe
10 what that is? Our books seem to go up to 218, so maybe
11 it's somewhere else.

12 MR. KOPTA: It is Verizon's response to AT&T
13 Data Request Number 71.

14 CHAIRWOMAN SHOWALTER: Oh, I've got it.

15 BY MR. KOPTA:

16 Q. And I believe these numbers are not
17 confidential, but I will ask to make sure. The peak and
18 off peak rates that Verizon charges VLD for resale long
19 distance are not confidential, are they?

20 A. No.

21 Q. Verizon charges VLD 17 cents a minute peak
22 rate and 10 cents a minute off peak rate with a discount
23 of 5%; is that correct?

24 A. Yes. And before we go on, I do want to
25 qualify for the Commission that I am not testifying on

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1 behalf of Verizon Long Distance, okay. We have answered
2 some data requests, but Verizon Long Distance is not a
3 party to this. I'm testifying on behalf of Verizon
4 Northwest. And so to the extent that we go through
5 questions, I may keep qualifying that, but again, I am
6 only here on behalf of Verizon Northwest, not Verizon
7 Long Distance company.

8 Q. Okay. Now if you would turn to Exhibit 231C,
9 which is actually the imputation study attached to
10 Mr. Dye's testimony. And you may not have that, perhaps
11 your counsel can share that with you. Specifically my
12 reference is in the table, line 5, where it says resale
13 and the total price for MOU, which would be the weighted
14 average of the off peak and the peak weighting for
15 resold services is the figure, and this is a
16 confidential number which is why I'm trying to avoid
17 saying it, is the figure in column J. So on a weighted
18 average basis, this would be the price that VLD pays to
19 Verizon for resold long distance; is that correct?

20 A. Yes.

21 Q. And in addition to the resold long distance,
22 Verizon also provides joint marketing services to VLD;
23 is that also correct?

24 A. That's correct.

25 Q. And if you would look at Exhibit 218C, which

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1 is Verizon's response to AT&T Data Request Number 70,
2 this provides a breakdown of the services that Verizon,
3 the joint marketing services that Verizon provides to
4 VLD and the total amount that VLD paid for those
5 services in 2002, correct?

6 A. Well, there's a lot of numbers here, which
7 ones are you referring to in the data request?

8 Q. Well, I'm referring at least with respect to
9 the total amount if you look in the response itself.

10 A. For the joint marketing piece?

11 Q. Yes.

12 A. That's what you're referring to?

13 Q. Yes.

14 A. Okay.

15 Q. I don't want to say it obviously, because
16 it's confidential. And then on the following pages
17 there is a breakdown of that number. I wanted to ask
18 you, if you know, is this for both interstate and
19 intrastate joint marketing or solely for intrastate?

20 CHAIRWOMAN SHOWALTER: What's this?

21 MR. KOPTA: The total amount that Verizon has
22 paid.

23 A. I want to say I think it is. I want to
24 double check something.

25 Q. Fine.

0835

1 A. I'm going to take a risk and say I think it
2 is intrastate, but I'm still checking, but I think it's
3 intrastate.

4 Q. Okay. Well, we can certainly make that
5 subject to check, and if you would investigate that and
6 let us know if that's not accurate, that would be
7 acceptable.

8 JUDGE SCHAER: Are you willing to do that,
9 Mr. Fulp? Under our rules, you can accept that subject
10 to check, and then you have five days to let the parties
11 know if your answer was not correct.

12 THE WITNESS: Yes.

13 JUDGE SCHAER: Are you responding to me or to
14 Mr. Kopta?

15 MR. KOPTA: Maybe both.

16 THE WITNESS: I was hoping I could find it
17 before I responded to you, so I will accept it subject
18 to check.

19 JUDGE SCHAER: Thank you.

20 BY MR. KOPTA:

21 Q. In addition to resold toll service and joint
22 marketing, Verizon also provides billing and collection
23 services to VLD, does it not?

24 A. That's correct.

25 Q. And if you look in Exhibit 218C, it's

0836

1 actually the third page, there's the cover page, then
2 the request to the response, and then another
3 confidential page. The last entry before the total is
4 for billing and collections; do you see that total
5 amount?

6 A. 218C, which page?

7 Q. The third page. It looks like this if you
8 can see from where you are.

9 JUDGE SCHAER: The third page is numbered 1
10 at the bottom right-hand corner.

11 A. Yes.

12 Q. And I wanted to clear something up. If you
13 would keep a finger on this page and turn to Exhibit
14 403C, which is Verizon's response to AT&T Data Request
15 Number 16, and on this exhibit, I would like you to turn
16 to the last page, which is the confidential page, in
17 which there is a grand total for billing and collections
18 for 2002 at the bottom of that first chart there, and
19 you will notice that there's a difference between that
20 number --

21 A. Okay.

22 Q. -- and the number in Exhibit 218C, and I was
23 hoping you could reconcile those two.

24 A. Just slow down a little bit, and I will be
25 with you.

0837

1 Q. Okay, sure.

2 A. 16, and you're looking at the B&C in a table?

3 Q. Correct.

4 A. That says B&C revenue for billing of toll
5 services?

6 Q. The table says sum of intrastate B&C revenue.

7 A. Correct.

8 Q. And there's a grand total at the very bottom
9 of the chart over to the right, the grand total.

10 A. Yes.

11 Q. Yet in 218C, there is a billing and
12 collections amount that's different than that number.

13 Do you know which is correct and why there's a
14 distinction between those two numbers?

15 A. They're both correct and I will give you the
16 distinction.

17 Q. Great.

18 A. I didn't keep my finger on it, sorry.

19 Q. That's all right, we're throwing numbers
20 around left and right. If you need them again, please
21 ask.

22 A. My finger slipped off. The figure that we're
23 referring to in 218C is total Northwest. The figure
24 that you see on 16 is Washington intrastate.

25 Q. That's exactly what I wanted to know, thank

0838

1 you.

2 In addition to the services that VLD obtains
3 from Verizon, VLD would incur additional costs such as
4 advertising or promotions or administration, that sort
5 of thing?

6 A. Again not being here for VZLD, I would assume
7 that they would have some advertising and marketing
8 expense. I don't know what level those would be.

9 Q. Well, I didn't think that you would, but I
10 just thought I would explore whether they have those
11 kinds of costs.

12 Now again, I'm going to ask you to look at
13 two different exhibits. One of them is going back to
14 Exhibit 231C, which is the imputation study. Second is
15 what I have distributed to you and to your counsel as
16 well as to the Bench, which are pages from the price
17 list that is currently on file with the Commission for
18 Bell Atlantic Communications, Inc., d/b/a Verizon Long
19 Distance, and that is the entity we have been referring
20 to as VLD, is it not?

21 A. Yes. And which Commission are you referring
22 to?

23 Q. If you look in the upper right-hand corner,
24 I'm referring to the Washington Utilities and
25 Transportation Commission.

0839

1 Now on the second page of this exhibit, which
2 is first revised sheet 44 of the VLD price list, draw
3 your attention to subpart B, which is usage rates. What
4 we're talking about here, just to back up a bit, is an
5 optional residential service plan from VLD. Do you see
6 that?

7 A. Yes.

8 Q. Section 3.6?

9 A. Yes.

10 Q. And the usage rates, on the far right the
11 column heading is intraLATA, and the rates for Monday
12 through Friday are 10 cents a minute and Saturday and
13 Sunday at 5 cents a minute.

14 A. For intraLATA and interLATA.

15 Q. It is for both, yes.

16 A. Same rate.

17 Q. Right. And if we look at Exhibit 231C, again
18 row 5, which is resale column J, you would agree with me
19 that even without considering all of the other costs
20 that VLD incurs to provide toll service, intraLATA toll
21 service, that this particular pricing plan is priced
22 below VLD's costs, correct?

23 A. No, I wouldn't agree with that at all.

24 Number one, again I want to qualify it one more time,

25 I'm not a VZLD witness, and I assume that this is going

0840

1 back to the first question you asked me about the floor
2 in my testimony?

3 Q. Yes.

4 A. What we just went through for the last few
5 minutes?

6 Q. Mm-hm.

7 A. The statement in my testimony, number one,
8 was rebutting Dr. Selwyn's assumption as a I understood
9 it that Verizon Long Distance, number one, would have a
10 price floor, which it does not, and number two,
11 comparing that to the Verizon Northwest imputation price
12 floor. And so the reason I'm answering no to that
13 question is I think there's some differences between
14 trying to compare a Verizon Long Distance rate to a
15 Verizon Northwest intraLATA imputation test, which is
16 what we have been talking about. And the difference is
17 and the reason I can't agree with you that it could be
18 selling it below cost is as you noticed in the exhibit
19 that you handed me, the rates in your exhibit -- I don't
20 remember the number of this exhibit.

21 Q. The price list?

22 A. The price list.

23 Q. Yes, it doesn't have an exhibit number.

24 A. Shows the VZLD rates to be for both inter and
25 intraLATA, and the imputation test that we have today is

0841

1 based upon Verizon Northwest intraLATA toll. VZLD is in
2 the toll business, a long distance carrier, not as big
3 as AT&T, but we're in the business that provides both
4 interstate and intrastate toll. So to my knowledge,
5 there's not an intraLATA toll plan only for Verizon Long
6 Distance that you could take and compare by itself to
7 the current imputation test that we have in Washington.
8 And the rates that they charge are the same for
9 intraLATA as well as interLATA, which in some of the
10 plans are also the same as interstate rates.

11 And so the cost basis for looking at Verizon
12 Long Distance is going to be different than the cost
13 basis that we have for imputation on the intraLATA
14 Verizon Northwest side by itself. And so that's why I'm
15 saying I don't know, you know, and again I don't know
16 what a price floor for Verizon Long Distance would be.
17 They're not required to submit a price floor. They're
18 not required to pass an imputation test like AT&T with
19 your toll rates. So given the fact that I don't have
20 just an intraLATA only rate and costs associated with
21 that, I would assume that Verizon Long Distance when
22 they look at setting their toll rates has to look at the
23 costs associated with intraLATA, interLATA, and possibly
24 interstate in setting the toll price.

25 Q. Well, that's an interesting response, because

0842

1 you agreed with me that at least the costs or the price
2 or costs that VLD pays to Verizon for resold intraLATA
3 toll is a certain amount which is you will agree with me
4 at least higher than the numbers that we're looking at
5 here under the intraLATA price that they have, that VLD
6 has on its price list, whether or not you agree with me
7 that that's an imputation standard?

8 A. I will agree that the one number is higher
9 than the other, yes.

10 Q. And as I understand your answer then, you are
11 suggesting that perhaps for interLATA services, which I
12 understand VLD does not obtain from Verizon; is that
13 correct?

14 A. That's correct.

15 Q. That VLD may be paying a lower price to
16 whomever its obtaining that service from for interLATA,
17 and the combination of both of them is lower than the
18 total revenues that they generate from both interLATA
19 and intraLATA. Is that what you're saying?

20 A. As well as potentially interstate, and I
21 would assume that the cost would be lower in the other
22 jurisdictions as compared to intraLATA. And again, I'm
23 not Verizon Long Distance, but I'm trying to answer your
24 question as to why I think there would be a difference
25 in looking at Verizon Northwest toll imputation and then

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1 trying to bring in Verizon Long Distance and making the
2 same comparison.

3 Q. Okay. If you would turn, please, in the VLD
4 price list to second revised sheet 54. Across the top
5 is the best way to look at the page numbers. And on
6 this page there's a description of optional business
7 service, business plan 1. And again we have charts with
8 rates in them varying from 10 cents a month for -- I
9 mean 10 cents a minute on a month-to-month basis all the
10 way down to 8 1/2 cents for a three year term plan. And
11 rather than go through our discussion we just had, I
12 will just ask whether the same explanation that you gave
13 me with respect to the residence plan would in your view
14 apply to this plan as well?

15 MR. CARRATHERS: Your Honor, if I may at this
16 time, I just wanted to renew very briefly for the
17 record, we objected to Verizon Long Distance being
18 discussed here because it wasn't named as a party. And
19 I understand the Commission overruled our motion on that
20 ground, and so we have done the best we can to provide
21 what data we can and discuss it. And so I just wanted
22 to preserve that objection for the record.

23 JUDGE SCHAEER: Thank you.

24 Go ahead, Mr. Kopta.

25 BY MR. KOPTA:

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1 Q. Do you remember my pending question,
2 Mr. Fulp?

3 A. I was hoping I could say yes, but no.

4 MR. CARRATHERS: I'm sorry.

5 Q. All right. If you have a different
6 explanation, I would love to hear it.

7 A. What was your question?

8 Q. The question here is at least with respect to
9 intraLATA toll minutes of use that these prices are
10 lower than the price -- the costs that VLD incurs to
11 obtain the resold service from Verizon?

12 A. And again, I can't answer that for the
13 reasons that I stated before. Because again, not
14 knowing how or what costs they would look at and
15 assuming, like we went through before, that their toll
16 rates are not just set for intraLATA purposes, I guess
17 my answer would be the same.

18 Q. And that's what I was asking you.

19 A different question this time. Is there any
20 variation in the price that Verizon charges VLD for
21 resold long distance based on a term plan?

22 A. Are you referring to our resale toll that
23 Verizon Northwest provides VZLD?

24 Q. Yes.

25 A. And are you asking if there's a term plan

0845

1 discount?

2 Q. Yes, I am.

3 A. I don't know. I don't think so, but I don't
4 know. There is the standard resale discount.

5 Q. And in response to exhibit or the data
6 requests in Exhibit 219C, if you would turn to that.

7 A. What was 219C again?

8 Q. That was Verizon's response to AT&T Data
9 Request Number 71. And if you will look in the
10 question, what we asked for at subpart 1, which is at
11 the end of the third line, the rate or rates that
12 Verizon Long Distance or Verizon affiliate paid for that
13 service, referring to the resold long distance service,
14 from Verizon, including all volume, term, or other
15 discount. And what you have provided in response is
16 only a single 5% discount. So what I'm asking I guess,
17 is this data request accurate and completely accurate in
18 listing all of the discounts that are available to VLD
19 from Verizon in providing resold intraLATA toll?

20 A. To my knowledge, the data request is
21 accurate. This is the resale discount that is provided
22 to any long distance carrier that purchases out of our
23 resale tariff. I am not aware of any discount plans,
24 but as I said before, I don't know.

25 Q. Okay. If you would please turn to the third

0846

1 revised sheet 50 in the VLD price list.

2 JUDGE SCHAER: Mr. Kopta, would you let me
3 know when you hit a good breaking point for us to go off
4 the record and discuss where we're going and when.

5 MR. KOPTA: Sure, this would be fine.

6 JUDGE SCHAER: Okay. Go ahead, I don't want
7 to break up a line of questions, so.

8 MR. KOPTA: We can stop here as easily as
9 anywhere else.

10 JUDGE SCHAER: All right. Well, let's be off
11 the record for a moment to discuss timing for the
12 remainder of the hearing and get updated witness
13 estimates if they are available.

14 (Discussion off the record.)

15 JUDGE SCHAER: While we were off the record
16 we decided that we would take a short break now and then
17 come back and try to complete the hearing this evening.
18 There are a few housekeeping items still that need to be
19 worked out, and probably the best time to do that will
20 be if we all hang on for 10 or 15 minutes after all of
21 the witnesses have testified. The things I have in mind
22 to talk about are the Verizon offer of proof, the
23 Verizon withdrawal of cross exhibits, briefing dates,
24 and you will have to remind me if there's anything else
25 that I have forgotten at the moment when we get to that

0847

1 point.

2 MR. KOPTA: Fair enough.

3 JUDGE SCHAER: So we're going to go off the
4 record, please be back by 10 after 5:00.

5 (Recess taken.)

6 JUDGE SCHAER: Let's be back on the record
7 after our early evening recess. At this point, we're
8 going to go forward with the cross-examination of
9 Mr. Fulp. Go ahead, please, Mr. Kopta.

10 MR. KOPTA: Thank you, Your Honor.

11 BY MR. KOPTA:

12 Q. When we last were speaking, we were looking
13 at the third revised sheet 50 to VLD's intrastate price
14 list, and we were discussing the rates at this point,
15 which are with the exception of a monthly usage
16 guarantee the same rates as were under business plan 1.
17 Is that your recollection, Mr. Fulp?

18 A. Where was business plan 1?

19 Q. Second revised sheet 54.

20 JUDGE SCHAER: And what sheet are we on now,
21 please, counsel?

22 MR. KOPTA: Third revised sheet 50.

23 JUDGE SCHAER: Thank you.

24 A. The month-to-month rate is what you're
25 referring to being the same?

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1 BY MR. KOPTA:

2 Q. Yes, the month-to-month rate is the same, the
3 one year term rate is the same, and the three year term
4 rate is the same.

5 A. Yes.

6 Q. And if you would please turn to original
7 sheet 51.1. Again, we're still in the business plan 2.
8 And under general, the paragraph reads:

9 The bundled service option is offered to
10 plan 2 customers who also subscribe to
11 one of the following qualifying services
12 offered by an affiliate of the company.

13 And in the second paragraph it lists the
14 services, the qualifying services; is that accurate?

15 A. Yes.

16 Q. Does Verizon Northwest, Inc., provide the
17 qualifying services?

18 A. Verizon Northwest provides Centrex, ISDN, I
19 would say for the most part they do. I don't know for
20 each and every service, you know, I haven't checked
21 that, but, you know, looking at it, I would think the
22 answer is yes.

23 Q. Okay. Do you know whether any other Verizon
24 affiliate provides those services in the state of
25 Washington?

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1 A. No, I don't.

2 Q. Now if you would turn to original sheet 51.3.
3 We're still in business plan 2. And in this case we're
4 looking at the usage rates, and the paragraph under that
5 section states:

6 Customers who satisfy all eligibility
7 requirements set forth above shall
8 receive a monthly discount of 5% on all
9 long distance usage charges, including
10 international usage charges, beginning
11 immediately after purchasing qualifying
12 services.

13 And the question that I have for you is, does
14 Verizon provide to VLD a discount of 5% on any of the
15 services that it offers to VLD, specifically the resold
16 toll, in exchange for this particular provision in the
17 price list?

18 A. Verizon Northwest offer VZLD a resale
19 discount on its toll rates of 5%, and that's in the
20 resale tariff.

21 Q. Does it offer an additional 5% in exchange
22 for VLD establishing a requirement in its price lists
23 that a customer obtain a local service from Verizon
24 Northwest?

25 A. I'm not -- I don't know. It may.

0850

1 Q. Now if you would please look at Exhibit 401,
2 and this exhibit is a price list filing from VLD that
3 adds a plan J service. There's a cover letter at the
4 beginning and then the revised tariff sheets following
5 that. Do you have that in front of you?

6 A. Yes, I --

7 MR. CARRATHERS: Your Honor, I'm going to
8 object to this exhibit on grounds that the Commission --

9 JUDGE SCHAER: I'm sorry, go ahead.

10 MR. CARRATHERS: I'm sorry, I thought you
11 wanted to ask me a question. On the grounds that the
12 Commission, as I understand, has already denied AT&T's
13 motion to supplement the record in this case by
14 introducing evidence of our Local Package Plan in
15 Dr. Selwyn's affidavit. And again we, Verizon, withdrew
16 that Local Package Plan a week or so again here, and
17 therefore I would suggest that AT&T is attempting to do
18 indirectly that which the Commission said it couldn't do
19 directly.

20 JUDGE SCHAER: Mr. Kopta.

21 MR. KOPTA: I believe the Commission stated
22 in denying our motion to supplement our testimony that
23 we could explore any issues we felt that needed to be
24 explored on cross-examination, which is exactly what I
25 am doing. And I would add that at least what I'm

0851

1 referring to in Exhibit 401 is a VLD price list filing,
2 not a Verizon Northwest price list filing, that has an
3 effective date of April 25, 2003. And as far as I know,
4 unless VLD withdrew this, it is now a part of the price
5 list that's on file with the Commission and is in full
6 force and effect.

7 MR. CARRATHERS: Your Honor, if I may
8 respond. The plan J incorporates the Local Package Plus
9 Plan that was withdrawn, so again I will just repeat the
10 basis of my objection, thank you.

11 JUDGE SCHAER: Mr. Kopta, I would like to ask
12 you just a couple of questions on voir dire, please.

13 MR. KOPTA: Certainly.

14

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

16 BY JUDGE SCHAER:

17 Q. Looking at what's been marked for
18 identification as Exhibit 401, is this a price list that
19 is now in effect?

20 A. To my knowledge, it is. It was filed as a
21 price list. As the Commission knows, it becomes
22 effective on ten days notice, and I'm not aware that the
23 Commission has taken any action to or even whether it
24 could necessarily take any action to suspend this price
25 list filing. Rather it's my understanding that if the

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1 Commission wanted to take any action, it would need to
2 do so through a complaint process. But unless VLD has
3 withdrawn this filing, which to the best of my ability
4 to investigate they have not, then it's my understanding
5 that this is, in fact, now a part of VLD's intrastate
6 price list.

7 CHAIRWOMAN SHOWALTER: I think we think that
8 the question is permissible, but I think we want to
9 understand what it is the witness is being asked about,
10 and there is this confusion I think about whether this
11 exhibit and what is in it is somehow contingent on or
12 depends on the proposal that was withdrawn. And so I
13 just think as a factual matter, we would like to know
14 what it is in front of us. I don't know who can
15 clarify that.

16 MR. KOPTA: Well, that's what I was -- one of
17 the things that I wanted to try and explore with
18 Mr. Fulp --

19 CHAIRWOMAN SHOWALTER: Maybe that's the thing
20 to do first with this witness, and then if he knows.

21 MR. CARRATHERS: If it is a lawfully filed
22 and effective price list, we certainly don't object to
23 AT&T, and they don't even need to mark it as an exhibit,
24 refer to it in argument in their briefs or oral
25 argument, make whatever claim they want, and it speaks

0853

1 for itself.

2 JUDGE SCHAER: Well, Mr. Carrathers, I think
3 you objected to it as an exhibit before it had been
4 offered, so why don't we go ahead with Mr. Kopta's
5 questioning. And if he should offer it at some point,
6 we can look at that issue maybe with a little bit more
7 foundation to assist us.

8 Go ahead, please, Mr. Kopta.

9 MR. KOPTA: Thank you, Your Honor.

10

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

12 BY MR. KOPTA:

13 Q. Mr. Fulp, what I would draw your attention to
14 is second revised sheet 43.1, which is actually the
15 second page of this exhibit. And on this page, there is
16 a subpart C, bundled service option. And similar to the
17 language that I read earlier, this language, the first
18 sentence provides:

19 The bundled service option is offered to
20 plan C customers who also subscribe to
21 qualifying services provided by
22 affiliates of the company as described
23 below.

24 Have I read that accurately?

25 A. Yes.

0854

1 Q. And the services described below are all
2 services provided by or at least referenced to be
3 provided by Verizon Northwest, Incorporated, tariff WNU
4 17, sections 6 and 8. Is that accurate?

5 A. That's what it says.

6 Q. And are these references to the tariff filing
7 that Verizon has withdrawn?

8 A. I believe so. I was -- I have not been
9 involved in any of these filings or the filings that
10 were withdrawn previously, but my understanding is that
11 it was a Local Package, Local Package Plus, that was
12 withdrawn that this is being -- this is referencing in
13 this tariff.

14 CHAIRWOMAN SHOWALTER: Could I draw
15 everyone's attention to the second sentence, which is:
16 Availability of this option is subject
17 to regulatory approval of the
18 corresponding service offering of the
19 affiliate.

20 Doesn't that imply that this offering here
21 isn't effective until the corresponding offering is
22 approved, and isn't that the offering that was
23 withdrawn?

24 MR. KOPTA: That's the way I would read it,
25 certainly.

0855

1 CHAIRWOMAN SHOWALTER: All right.

2 MR. KOPTA: And that's why I am exploring
3 that particular question.

4 CHAIRWOMAN SHOWALTER: Maybe you could ask
5 the witness if he agrees.

6 MR. KOPTA: Okay, I will.

7 BY MR. KOPTA:

8 Q. Do you agree?

9 A. I agree.

10 Q. If you would put one finger on this exhibit
11 and look at Exhibit 400.

12 A. That didn't work last time, but I will try.

13 Q. It may be a little easier since they're right
14 next to each other.

15 Is this the Verizon Northwest's tariff filing
16 referenced in Exhibit 401?

17 A. I believe so, yes.

18 Q. And this is the tariff filing that Verizon
19 has withdrawn; is that correct?

20 A. I believe so.

21 Q. Did Verizon provide any compensation to VLD
22 in exchange for having a requirement in its price list
23 that a customer take local service or a package of local
24 service from Verizon Northwest in order to qualify for
25 this particular plan?

0856

1 A. I don't know.

2 Q. I would also draw your attention on Exhibit
3 400 at the running footer, so if you would just look at
4 the first page, that this was issued March 25th, 2003,
5 with a stated effective date of April 24th, 2003; is
6 that correct?

7 A. That's what it says, yes.

8 Q. And if you would look on Exhibit 401, there's
9 an issue date of April 15th, 2003, again in a running
10 footer, with an effective date of April 25th, 2003.
11 Were these coordinated filings between VLD and Verizon?

12 A. I'm sorry, where is the footer I'm looking
13 for again?

14 Q. In Exhibit 401 starting on the second page,
15 the second revised sheet 43.1 down at the bottom,
16 there's a double line, and in between the double line
17 there's the issued and effective dates.

18 A. April 25th?

19 Q. For the effective date, yes.

20 A. Yes.

21 Q. And the effective date for the Verizon
22 Northwest tariff filing was April 24th, 2003, and I'm
23 asking you whether these were coordinated filings
24 between VLD and Verizon Northwest?

25 A. I don't know if they -- and I don't know what

0857

1 you mean by coordinated, and so I don't know.

2 Q. Were these filings jointly developed by VLD
3 and Verizon?

4 A. I don't know as far as, you know, the product
5 offer management people, how they put together filings
6 like this, so I don't know.

7 Q. Do VLD and Verizon have separate product
8 management people?

9 A. That's my understanding, yes.

10 Q. So are you saying that it could be just
11 coincidence that they filed them to be effective within
12 one day of each other and the VLD filing cross
13 references a Verizon tariff?

14 A. No, I didn't say that at all. I said I
15 didn't know. You know, it could be a coordinated
16 filing. I don't know.

17 Q. Okay. If you would please turn to Exhibit
18 402. This is also a VLD price list filing, which adds a
19 plan K service. There's a cover letter is the first
20 page and then price list pages following that page. Is
21 that an accurate description of this exhibit?

22 A. Yes.

23 Q. And under general description, the first
24 sentence states:

25 Plan K service is an optional calling

0858

1 plan offered for outbound direct dialed
2 interLATA interexchange calling to
3 residential customers who also subscribe
4 to a qualifying local services package
5 as described below.

6 And in the second paragraph it describes the
7 packages that are available. Is that accurate, or
8 required to be eligible for this service?

9 A. It appears so, yes.

10 Q. Now in this filing there's no reference to
11 Verizon Northwest, Inc., or any Verizon affiliate that I
12 see; do you see one?

13 A. I haven't looked, but so no, I don't see one.

14 Q. In this second paragraph that describes the
15 qualifying services, does this also describe the
16 offering that Verizon Northwest filed in its tariff
17 filing in Exhibit 400 but then subsequently withdrew?

18 A. I'm not sure, let me do the finger thing
19 here.

20 Q. Sure.

21 A. That was not --

22 MR. CARRATHERS: Your Honor, at this point
23 let me object for a moment. Are we going to read the
24 tariff into the record or just -- I would suggest, Your
25 Honor, perhaps we can just offer it into the record

0859

1 instead of asking Mr. Fulp questions after he has stated
2 he didn't work on these tariff filings.

3 MR. KOPTA: That's fine with me, we can make
4 the comparison as part of an exhibit.

5 JUDGE SCHAER: If you don't object to this
6 being an exhibit, then let's go ahead. And if you would
7 like to, you may offer these at this time, Mr. Kopta.

8 MR. KOPTA: Okay, why don't I just go ahead
9 and do that. I would offer Exhibits 400 through 402.

10 JUDGE SCHAER: Exhibits 400, 401, 402 have
11 been offered, are there any objections?

12 Hearing none, those documents are admitted.

13 MR. KOPTA: Thank you, Your Honor.

14 BY MR. KOPTA:

15 Q. I have one more question on Exhibit 402,
16 which is are you aware or do you know of any other local
17 exchange companies or any other telecommunications
18 providers in Washington that offer a qualifying plan as
19 described in this second paragraph?

20 A. No, I don't.

21 Q. Now if you would please turn to Exhibit 204,
22 which is Verizon's confidential response to AT&T Data
23 Request Number 17. And I would draw your attention
24 specifically to the supplemental response subparts A and
25 B, which provide the number of retail intraLATA toll

0860

1 lines presubscribed to Verizon for Washington, which is
2 sup part A, and in sup part B, the number of customers
3 who are presubscribed to Verizon for local exchange
4 services in VLD and Verizon Enterprise Solutions for
5 intraLATA toll services. Would you agree with me that
6 Verizon and VLD are successful in signing up intraLATA
7 toll customers who are also Verizon local customers?

8 A. I hate to do this, but I don't know what your
9 definition of successful is, and by looking at these
10 numbers, I don't know how to answer that question
11 without knowing what your definition of successful is.

12 Q. Fair enough. Do you know roughly the total
13 number of access lines that Verizon serves in the state
14 of Washington?

15 A. I believe referring to this request, we have
16 lines on here?

17 Q. Yes.

18 A. Can I use those?

19 Q. Sure, if it's not -- I believe it's not a
20 confidential number.

21 A. Yeah, I know those.

22 Q. Well, I want to make sure it's accurate and
23 it's down to the last decimal point. Would you agree
24 with me that Verizon and VLD serve a substantial
25 percentage of the total number of access lines that

0861

1 Verizon serves with respect to local services?

2 MR. CARRATHERS: Objection, Your Honor, the
3 numbers speak for themselves. And here again, AT&T can
4 certainly argue in its brief what it thinks the numbers
5 mean.

6 JUDGE SCHAER: Mr. Kopta.

7 MR. KOPTA: I have no objection letting them
8 speak for themselves. I was trying to avoid using
9 confidential numbers on the record, but this exhibit
10 will be part of the record, or at least we will intend
11 to offer it, so I can withdraw the question.

12 JUDGE SCHAER: Go ahead, please.

13 BY MR. KOPTA:

14 Q. Would you turn to Exhibit 206, and this is
15 Verizon's response to AT&T Data Request Number 19, and
16 it asks specifically for the total number of end user
17 customers who are presubscribed to Verizon's toll
18 services but are not Verizon local exchange customers,
19 and the response is none; is that accurate?

20 A. That's right.

21 Q. Does --

22 A. But I think we updated that response in 20.

23 Q. I have not received an updated response, but
24 do you have an updated number?

25 A. We don't have an updated 19. I'm sorry, go

0862

1 ahead with your question. Yes, right here it says the
2 answer is none.

3 Q. Right. And I believe just to clarify we're
4 talking -- the exhibit you were referring to is 207,
5 which asks the same question with respect to VLD as
6 opposed to Verizon; is that correct?

7 A. That's correct.

8 Q. Okay.

9 A. Thank you.

10 Q. Does Verizon actively market its intraLATA
11 toll services to end user customers who are not
12 presubscribed to Verizon local services?

13 A. I'm sorry, did you say Verizon Long Distance
14 or Verizon Northwest?

15 Q. Verizon Northwest.

16 A. Actively market to?

17 Q. Actively market its intraLATA toll services
18 to end user customers who are not subscribers of Verizon
19 local services?

20 A. That are in Verizon's service territory?

21 Q. Well, we could start with that, but I would
22 like to know the answer anywhere. Let's start with your
23 qualification, end user customers within Verizon service
24 territory, does Verizon actively market to those
25 customers?

0863

1 A. I don't know the activity of marketing for
2 the intraLATA customers for Verizon Northwest, and so I
3 don't know if it's -- I don't know to what degree, if
4 any, there is marketing, and so I can't speak to if it's
5 active or not.

6 Q. Is the same response for say Qwest
7 subscribers?

8 A. Yes.

9 Q. Qwest local service?

10 A. Same response.

11 Q. Does Verizon offer intraLATA toll services to
12 subscribers of other incumbent local exchange companies
13 in Washington?

14 A. Isn't that this data request?

15 Q. No.

16 A. Okay.

17 Q. I will ask it more specifically.

18 A. Okay.

19 Q. My residential service, local service, is
20 provided by Qwest. Can I call up Verizon and ask for
21 Verizon intraLATA toll service? Well, I could I guess,
22 but would they give it to me?

23 A. Please do.

24 Q. Do you know whether if I did that that
25 Verizon would say, yeah, welcome aboard? Verizon

0864

1 Northwest, I want to make sure that we're talking about
2 the right company to preempt Mr. Carrathers was about to
3 ask for that clarification.

4 A. I don't know for sure.

5 MR. KOPTA: Thank you, Mr. Fulp, that's about
6 all the fun I think we can stand for this particular
7 discussion.

8 But I would like to move before I forget for
9 admission of cross-examination Exhibits 203 through 208
10 and 210C through 219C.

11 JUDGE SCHAER: Any objections?

12 Hearing none, those documents are admitted.

13 MR. KOPTA: Thank you, Your Honor.

14 JUDGE SCHAER: Hold on just a moment, please,
15 it was 203 through 208, and what was the other group,
16 please?

17 MR. KOPTA: 210C through 219C, and the reason
18 we're taking out 209 is because we already had that
19 admitted in response or in conjunction with
20 Ms. Heuring's cross-examination.

21 JUDGE SCHAER: Yes, I show that admitted
22 already also.

23 So, Ms. Smith, did you have questions?

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

25

0865

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

2 BY MS. SMITH:

3 Q. Good afternoon, Mr. Fulp.

4 A. Good afternoon.

5 Q. Do you recall a question yesterday posed to
6 Dr. Selwyn regarding feature group C access service and
7 feature group D access service?

8 A. I do recall the question. I don't know if I
9 understood it, but I do recall listening.

10 Q. Okay. Could you explain what the difference
11 is between feature group C access service and feature
12 group D access service as you understand it?

13 A. My understanding would be feature group C is
14 a carryover on the switched access out of the access
15 side in conjunction with I want to say we had to provide
16 premium, non-premium type discounts, and then feature
17 group D was then the access that's generally provided,
18 but -- does that answer your question?

19 Q. Well enough, thank you.

20 Does Verizon Northwest use feature group C or
21 a service like feature group C in its provision of
22 interLATA toll?

23 A. Did you say Verizon Northwest?

24 Q. I did.

25 MR. CARRATHERS: Clarification, did you say

0866

1 interLATA toll?

2 Q. I said intraLATA.

3 A. IntraLATA toll or --

4 Q. I'm going to repeat the question, okay. Does

5 Verizon Northwest use feature group C or a service like

6 feature group C in its provision of intraLATA toll?

7 A. It may. I'm not sure, but it may.

8 Q. Does Verizon Long Distance use Verizon

9 Northwest's feature group D access service in its

10 provision of interLATA toll?

11 A. Verizon Long Distance?

12 Q. That's correct.

13 A. I'm not sure. It could. We don't provide

14 the access to them for interLATA toll.

15 Q. What about for calls originating or

16 terminating between Verizon Northwest customers?

17 A. I'm sorry, but what about them?

18 Q. Does Verizon Long Distance use Verizon

19 Northwest's feature group D access service in carrying

20 calls between Verizon Northwest customers?

21 A. Does Verizon -- I just want to make sure I've

22 got the -- does Verizon Long Distance use Verizon

23 Northwest feature group D in providing intraLATA toll,

24 was that the question?

25 Q. Well, the first question was in providing

0867

1 interLATA toll, and the question I'm asking now, I will
2 give you maybe a hypothetical situation. Maybe it will
3 be easier for you to answer the question. If Verizon
4 Long Distance is carrying a call between a Verizon
5 Northwest customer residing in Everett, Washington and a
6 Verizon Northwest customer residing in Wenatchee,
7 Washington, in Eastern Washington, does Verizon Long
8 Distance use Verizon Northwest's feature group D access
9 service in that call?

10 A. And that was an intraLATA call, if it's --

11 Q. It's interLATA, it's interLATA, that's an
12 interLATA call.

13 A. They could, I'm not sure.

14 MS. SMITH: Okay, thank you. That's all I
15 have.

16 JUDGE SCHAEER: Commissioners, did you have
17 questions?

18 CHAIRWOMAN SHOWALTER: I have one.

19

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

21 BY CHAIRWOMAN SHOWALTER:

22 Q. Say that the company is not earning an
23 adequate rate of return and would be threatened even
24 further by reduction in access charges but that you see
25 the advantages in a competitive sense or a policy sense

0868

1 of reducing charges, why didn't the company respond to
2 the original complaint by bringing a general rate case
3 and addressing the access charges within the context of
4 a general rate case?

5 A. Number one, we had an access complaint filed
6 against us, and I don't believe we felt that given an
7 access complaint that's been filed by a customer, a
8 competitor, that we needed because of that activity or
9 that action to file a general rate case and go through
10 that process at that point in time for a general rate
11 case. We didn't -- I guess our thoughts were that we
12 could come to some type of plan through this docket that
13 would allow access reductions potentially while still
14 not degrading our current financial situation any
15 further. And again, we're not opposed to reductions in
16 access rates, it's the reductions in access rates that
17 would make us further not recover our cost of doing
18 business that's the concern that we have.

19 So to answer your question, we didn't think
20 that the response to an access complaint filed by AT&T
21 warranted or pulled the trigger say for us to be filing
22 a rate case to take care of that complaint versus other
23 methods that could possibly be pursued in conjunction
24 with that complaint to settle it as far as again trying
25 to put access reductions in place while still attempting

0869

1 to not degrade our current financial situation.

2 Q. I appreciate your testimony and your posture
3 just now, but perhaps incorrectly I have taken the
4 posture of the company to be there's nothing wrong with
5 our access rates, but if you're going to change them,
6 then you need to make it in a revenue neutral manner,
7 which is a little different than saying we have no
8 objection to your reducing access rates, but do it in a
9 revenue neutral manner, to which one then might add,
10 well, how about doing it in the context of a general
11 rate case.

12 A. Let me see if I can clear that up a little
13 bit. Number one, we have gone through -- we followed
14 the rules, we followed the access charge order, okay,
15 and we had rates that were set by this Commission that
16 were just and reasonable, and I know we have a lot of
17 testimony where we refer to that. We then get a
18 complaint filed by AT&T saying that your rates are not
19 just and reasonable. Well, in our view, by definition,
20 rates that are approved by the Commission that followed
21 the rules are just and reasonable.

22 Now the second question is, and so we're
23 looking on the defensive being told that our rates are
24 not just and reasonable when we followed all the
25 Commission rules, we followed the access charge order,

0870

1 and we followed that historically in setting our access
2 rates and our revenue requirement for the company. Then
3 we're being told, your access rates are not just and
4 reasonable. So we're on the defensive, and we're
5 saying, yes, they are just and reasonable for all the
6 reasons that we have stated in our testimony, and we
7 have followed the rules, and so just because AT&T
8 doesn't like paying the level of access rates that we're
9 charging does not mean our rates are not just and
10 reasonable.

11 So let's set that aside and now look at what
12 potentially needs to be done. And what we're not saying
13 is we're against access reductions, okay. So even
14 though we have an argument that says our rates are just
15 and reasonable, which in our opinion they are, now let's
16 take the next step and say, do we think reductions in
17 access rates are the wrong thing to do, and the answer
18 to that is no from an economic efficiency standpoint,
19 from a competition standpoint, we're not arguing with
20 that.

21 However, if we can't accommodate that given
22 our current financial situation and given our current
23 earnings without making up the contribution that we
24 would lose if we reduce the access rates, then we would
25 be making a bad business decision to say, oh, yes, let's

0871

1 just go reduce our access rates. Because we're already,
2 as we filed, in financial hardship. We don't want to
3 make that worse.

4 And so again, we believe our access rates are
5 just and reasonable. That does not mean that we don't
6 think that access rates couldn't be reduced if we could
7 do it in some fashion that would not further hurt our
8 earnings.

9 Q. All right. So you believe that the current
10 rates are just and reasonable, but there could be lower
11 ones that are also just and reasonable if your overall
12 earnings and revenues are adequate, that's correct?

13 A. Yes.

14 Q. But in addition, you don't accept the rates
15 or rate level that AT&T in particular is advocating?

16 A. No.

17 Q. You would come out with a different number
18 and a different approach?

19 A. Yeah, I mean we do not need to take -- long
20 run incremental cost is a nice economic construct, and,
21 you know, we do the models and we talk about long run
22 incremental cost, and that is a good theory and a good
23 possible benchmark to be looking at in setting the
24 rates. However, you can't set all of your rates at long
25 run incremental cost and be a viable company, and so the

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1 problem that we're having is, you know, going all the
2 way to long run incremental cost, we don't think we need
3 to do that with access rates at this point. Movement
4 toward that is something that should be considered, and
5 again in the context of being able to, you know, keep
6 our earnings situation making it no worse off than it is
7 at this point.

8 Q. All right. Then if you do -- if you don't
9 object to lowering access charges as long as you are
10 able to get adequate revenues, what is the distinction
11 between doing it in a revenue neutral shift, revenue
12 neutral shift in different rates, versus a general rate
13 case? Because as you said, you feel that overall even
14 without this prospective revenue neutral shift you're
15 not making enough return, so why not advocate -- why
16 wouldn't you come in with a general rate case in
17 response to a proposal, your own proposal, for access
18 reduction?

19 A. I think that when you -- number one, we're
20 looking at pricing for the access reduction, and you're
21 looking at pricing policy, and how should you set your
22 prices, okay. We think that the best mechanism for
23 doing that would be to do that in a revenue neutral
24 fashion and adjust your prices for access, adjust your
25 prices elsewhere, do some rationalization of your

0873

1 pricing, and do that in a revenue neutral fashion. And
2 if we could do that in a revenue neutral fashion, we
3 have taken care of one of the issues, which is the
4 pricing.

5 Now to tie the pricing policy and what we
6 should be doing on the pricing side to having -- file an
7 overall general rate case, you know, in our opinion
8 that's not something that we would want to be forced to
9 have to do. We should be able in working with the
10 Commission and the industry work out something on our
11 pricing policy, and then, you know, we are going to have
12 to continue to assess our earning situation to see if we
13 have to file a general rate case or not. But not link
14 those two together and definitely not have reductions in
15 access rates and then say, if you have a problem, then
16 come file a rate case. Because our earnings, as I have
17 stated before, are already in trouble.

18 And so to us, we think that would be bad
19 policy to reduce your rates, reduce the contribution
20 that you currently get, and then have to come in for a
21 general rate case for recoupment of that versus, as I
22 said before, being able to put together a policy that
23 would or a plan that would allow reductions in access
24 rates while trying to maintain a revenue neutral
25 position.

0874

1 MR. CARRATHERS: Your Honor, there's a legal
2 response too that we briefed earlier, and I think it
3 goes directly to your point, and I apologize to
4 interrupt, but I think you raised a good question and it
5 is important. Recall that when AT&T filed its
6 complaint --

7 CHAIRWOMAN SHOWALTER: You know what, I think
8 we're really not in the legal argument -- we'll get into
9 all kinds of legal arguments.

10 BY CHAIRWOMAN SHOWALTER:

11 Q. Suffice it to say I think this Commission has
12 recognized and I believe even in this case that we have
13 entertained revenue neutral shifts before, and my
14 question really wasn't whether anybody should force you
15 into a general rate case. It was more a question of why
16 didn't you volunteer for one if, as you testified, you
17 already feel you're not making sufficient return and
18 this is just an additional issue. But the more issues
19 you get, the more rates you might want to change, and
20 the less revenue you're making, the more it points
21 toward a general rate case as opposed to a narrowly
22 confined revenue neutral shift in rates. But I think
23 probably I should end with that comment unless you're
24 burning to give your own comment. I think we have had
25 enough for the record.

0875

1 A. Well, I just want to make sure that I
2 answered your question.

3 Q. I think you did, but go ahead.

4 A. Again, I mean you look at the earnings, and
5 it's a very good question, well, why haven't you filed a
6 rate case. And as I said before, it was partially a
7 timing issue, because, you know, we have had a financial
8 problem, we knew that, we couldn't do anything given the
9 merger order, and then we had a complaint filed, and we
10 have been addressing the complaint. We're still looking
11 at our earnings, and so we haven't filed a rate case
12 because of that. We have been involved in this.

13 CHAIRWOMAN SHOWALTER: Thank you.

14

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

16 BY COMMISSIONER HEMSTAD:

17 Q. Well, I may be beating a dead horse, but I
18 was going to pursue some of the same kinds of issues,
19 and maybe this is phrasing that slightly differently.
20 Your witness, Ms. Heuring, says you have pro forma
21 deficiency for 2002 of \$105 Million. And the worse case
22 result from here is, and Mr. Kopta had to raise this in
23 his cross-examination, would be the settlement position
24 of reductions in access charges of approximately \$40
25 Million. So your best scenario under your own analysis

0876

1 is that you're losing \$105 Million. The worse case is
2 that it could be \$145 Million.

3 In response to the question as to whether
4 irrespective of the outcome of this proceeding whether a
5 rate case will be filed, you said, well, it's a
6 possibility. Well, I mean I would think it's a no
7 brainer. Why would you not be in a position even
8 looking backwards having done them both simultaneously,
9 you say it's a resource problem, well, you've got big
10 money at stake here. You can hire a lot of lawyers for
11 the money that's involved there. But in any event, on a
12 going forward basis, it's not either a timing issue or a
13 resource issue, why would it be a possibility only?

14 A. Let me upgrade that answer to a strong
15 possibility, because at this point I'm not going to, you
16 know, I can't sit here and say, yes, we're going to file
17 a rate case. I can't do that. But it is, like I said
18 with an upgrade, a strong possibility that we may have
19 to do that. Again, you know, we have to continually
20 assess our financials, see if they're going to turn
21 around, you know, we don't know.

22 Q. But --

23 A. But your question is very good. I understand
24 exactly what you're saying. I mean you look at the
25 numbers, then why don't you file a rate case.

0877

1 Q. But one of the -- I take it one of the and
2 the view of the company is that there -- and I'm making
3 no judgment on the outcome of this proceeding, but were
4 we to conclude that there should be a reduction in
5 access charges, then there ought to be some kind of a
6 revenue neutral offset. Of course, that's not the same
7 as a general rate case, which looks at all of your
8 revenues and all of your costs in detail as against much
9 more, well, for want of a -- I can't come up with a more
10 precise term, but much more superficial kind of offset.
11 And let's see, how long has it been since there has been
12 a full blown rate case for this company, and was it
13 1982?

14 A. It's been a long time. I'm not sure of the
15 year.

16 Q. It's something like 20 years I think. I
17 guess that's a question.

18 A. Is it 20 years? I'm not sure.

19 Q. That wasn't the thrust of my question. Well,
20 maybe there's no need for a further answer. Maybe that
21 was more of a comment than.

22 A. No, and I do understand your comment. And
23 again, you know, I'm not going to sit here today and
24 tell you that yes, we're definitely going to file a rate
25 case. I have told you that, you know, we're concerned,

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1 you know. What I'm trying to stress in conjunction with
2 this case is that, you know, I think there's options
3 that would make sense to look at getting access
4 reductions, not hurting us any further on the financial
5 side, and then again the company is still going to have
6 to make the decision on what they do about their overall
7 earnings. But what we don't want to have happen is
8 that, given our earnings, is that a decision comes out
9 and says, yeah, reduce your access rates, and then go
10 file a rate case and you'll, you know, we'll take care
11 of it there.

12 Q. I understand, and I'm making no comment on
13 the merits, but there would appear from the testimony to
14 be a substantial difference of opinion as to the level
15 of your earnings between you and the Staff.

16 A. Yes.

17 COMMISSIONER HEMSTAD: That's all I have.

18 COMMISSIONER OSHIE: I don't have any
19 questions.

20 JUDGE SCHAER: I don't have any questions,
21 but what I would like to do is, Mr. Kopta, you
22 distributed a document that was naming rates for resale
23 common carrier service as a value added common carrier
24 on behalf of Bell Atlantic, Inc., doing business as
25 Verizon Long Distance, which was effective August 1st,

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1 2000. And there was enough discussion of this on the
2 record that we would like copies of this put into the
3 record as an illustrative exhibit, if you could provide
4 those, please.

5 MR. KOPTA: I would be happy to do that, and
6 that was one of the things that I wanted to raise in
7 terms of whether we wanted to have this as part of the
8 record for ease of reference. I will certainly be glad
9 to provide the requisite number of copies for the
10 Commission.

11 The other thing that I wanted to raise while
12 we're talking about exhibits is I neglected to request
13 admission of Exhibit 403C and would do so now.

14 JUDGE SCHAEER: Is there any objection?

15 MR. CARRATHERS: Your Honor, I have just a
16 follow up.

17 JUDGE SCHAEER: Do you object to the --

18 MR. CARRATHERS: I don't object.

19 JUDGE SCHAEER: Okay.

20 MR. CARRATHERS: I don't object at all.

21 JUDGE SCHAEER: So let's admit Exhibit 403.

22 And then did you have something along the
23 same lines?

24 MR. CARRATHERS: Yes, I did, Your Honor.

25 JUDGE SCHAEER: Go ahead, please.

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1 MR. CARRATHERS: Thank you. When we traded
2 exhibit lists, I believe AT&T indicated that, you know,
3 we're not going to offer these as exhibits, but we may
4 refer to various price lists and tariffs. And I just
5 want to point out we may very well do the same things in
6 our briefs, refer to AT&T price lists and tariffs that
7 are on file, and I just want to be sure that counsel for
8 AT&T recognizes that. And if he has an objection, I
9 felt it would be fair to let him know and let him make
10 the objection now.

11 JUDGE SCHAER: Mr. Kopta.

12 MR. KOPTA: It's a public document, it's my
13 understanding that it could be referred to just like a
14 Commission order in a brief. I don't know how he is
15 going to use them. It would be nice to know just as I
16 kind of let Verizon know what I'm going to do. But, you
17 know, that having been said, I don't have a formal
18 objection.

19 JUDGE SCHAER: Okay. I think I will ask you
20 unless they are massive to make the parts that you're
21 referring to appendices to the brief.

22 MR. CARRATHERS: Certainly.

23 JUDGE SCHAER: So that we don't have to go
24 dig through the tariffs or price lists to find them.

25 MR. CARRATHERS: I will, thank you.

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1 JUDGE SCHAER: All right.

2 So is there any more, did you have any more
3 questions for this witness?

4 Is there any redirect?

5 MR. CARRATHERS: No, Your Honor.

6 JUDGE SCHAER: All right, thank you for your
7 testimony, Mr. Fulp, you may step down.

8 Let's go off the record for a moment to
9 discuss where we go from here.

10 (Discussion off the record.)

11 JUDGE SCHAER: While we were off the record
12 we discussed some of the items we need to conclude
13 dealing with today, including exhibits that have not yet
14 been ruled upon and an offer of proof that Verizon
15 wishes to make. We have also discussed various options
16 for briefing schedules or oral argument or other
17 conclusion of the case, and the parties have been
18 informed that they will be provided more information on
19 that early next week.

20 So at this point, Mr. Carrathers, were you
21 the one that was going to deal with the exhibit list, or
22 was Ms. Endejan going to do that?

23 MS. ENDEJAN: I will, Your Honor.

24 JUDGE SCHAER: Okay.

25 MS. ENDEJAN: Your Honor, with respect to the

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1 exhibit list, what we had done is we had distributed a
2 list to the parties, to the Bench, that indicated we
3 were withdrawing a number of cross exhibits that we had
4 marked for Dr. Selwyn, and for the record, those were
5 25, 26C, 29, 32, 33, 34.

6 JUDGE SCHAER: Slow down a bit, please.

7 MS. ENDEJAN: Okay. 33, 34, 38, 39, 44, 45,
8 49, 57, 60, 77, 78, 79, 80, 81, 82, 85, 86, 87, 91, and
9 92. And with the exception of those withdrawn cross
10 exhibits, all of the other exhibits that Verizon had
11 designated as cross exhibits for either Dr. Selwyn or
12 Mr. Zawislak or Dr. Blackmon or Ms. Erdahl to the extent
13 I didn't catch them all we would move at this time for
14 admission into the record.

15 JUDGE SCHAER: So I'm going to note at this
16 point that Exhibits 25, 26C, 29, 32, 33, 34, 38, 39, 44,
17 45, 49, 57, 60, 77, 78, 79, 80, 81, 82, 85, 86, 87, 91
18 and 92 have been withdrawn and that Exhibits 117 and 119
19 and 139, 140, 142, 143, were previously withdrawn.

20 At this point, Verizon has offered Exhibits
21 12 through 24, is there any objection to entry of those
22 exhibits?

23 MR. KOPTA: Excuse me, Your Honor, has 11
24 been withdrawn?

25 JUDGE SCHAER: I'm sorry, excuse me, counsel,

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1 I have a date in my column where I would put my A or W.
2 So at this point I believe Exhibits 11 through 24 have
3 been offered, are there any objections to those
4 exhibits?

5 MR. KOPTA: We don't have any objection, but
6 we would just make an observation with respect to any of
7 the exhibits that are AT&T responses to Verizon data
8 requests that we would reserve the right to ensure that
9 the response is a complete response. And if the exhibit
10 that Verizon provided to the parties in advance of the
11 hearing does not contain a complete response, then we
12 will provide a complete response to substitute for that
13 exhibit. But with that reservation, we have no
14 objection.

15 JUDGE SCHAEER: Okay. And I am going to grant
16 that same privilege to all of the parties. If there's a
17 response from one of your witnesses that are incomplete
18 and you wish to, you may file a complete response.

19 I have also had offered Exhibits 29, or
20 excuse me, 27, 28, 30, 31, 35 through 37, 40 through 43,
21 and 46. Is there any objection to entry of any of those
22 exhibits?

23 Hearing none, those exhibits are included
24 into the record.

25 MR. KOPTA: And just to be clear, I don't

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1 believe you officially admitted Exhibits 11 through 24.

2 JUDGE SCHAER: Thank you.

3 Is there any objection to Exhibits 11 through
4 24?

5 Hearing none, those are admitted.

6 Exhibits 47, 48, 50, 51, 52, 53, 54, 55, 58,

7 59 --

8 MS. ENDEJAN: 56, Your Honor, as well.

9 MS. SMITH: That came in earlier.

10 JUDGE SCHAER: I note that as already
11 admitted.

12 MS. ENDEJAN: Excuse me, all right.

13 JUDGE SCHAER: And 61 through 66 have been
14 offered into the record. Is there any objection to
15 entry of those documents?

16 Hearing none, those documents are admitted
17 into the record.

18 Exhibits 67 through 76 have been offered into
19 the record, is there any objection to entry of any of
20 those documents?

21 Hearing none, those documents are entered
22 into the record.

23 Exhibits 83 and 84 have been offered, is
24 there any objection to entry of those documents into the
25 record?

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1 Hearing none those documents are admitted.

2 Exhibits 88, 89, and 90 have been offered
3 into the record, is there any objection to those
4 exhibits?

5 Hearing none, those documents are admitted.

6 Would somebody please bring me up to date on
7 Exhibit 93.

8 MS. ENDEJAN: Your Honor, that's one of
9 Verizon's exhibits, and we would move for that to be
10 admitted into the record.

11 JUDGE SCHAER: Okay. I just wanted to be
12 sure because it wasn't a data response, thank you.

13 Is there any objection to Exhibit 93?

14 MR. KOPTA: No objection, no.

15 JUDGE SCHAER: The document is admitted.

16 Now looking at the documents listed under
17 Mr. Zawislak, Ms. Smith.

18 MS. SMITH: Yes, Your Honor.

19 JUDGE SCHAER: I show admission of everything
20 between T-100 and 115. Is that also --

21 MS. SMITH: That's what I show, Your Honor.

22 JUDGE SCHAER: Okay. And did the offer
23 include Mr. Zawislak's data request response exhibits as
24 well? I know you had mentioned for AT&T and --

25 MS. ENDEJAN: Yes, yes, Exhibits 116 through

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1 124 we would offer with respect to Mr. Zawislak.

2 MS. SMITH: Am I to understand that 117 and
3 119 already have been withdrawn?

4 JUDGE SCHAER: That's what my records show.

5 MS. ENDEJAN: Right, right, right.

6 JUDGE SCHAER: So is there any objection?

7 Then those exhibits are admitted.

8 I understand that Exhibits 133 through 138
9 have been offered into the record; is that correct?

10 MS. SMITH: 130 through 132 have been
11 admitted already, I believe.

12 JUDGE SCHAER: Yes, I was asking about 133
13 through 138.

14 MS. SMITH: I'm sorry, I apparently didn't
15 listen carefully enough.

16 JUDGE SCHAER: Okay. So hearing no
17 objection, those are admitted.

18 Going back to the top of the page, I missed
19 Exhibit 123C and 124, those documents have been offered.
20 Is there any objection to their entry?

21 Hearing none, those documents are admitted.

22 Exhibit 141 has been offered, is there any
23 objection to its entry?

24 The document is admitted.

25 According to my notes, that deals with all of

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1 the identified exhibits in the proceeding other than
2 what's been marked for identification as Exhibit 300,
3 which was a settlement stipulation.

4 MS. ENDEJAN: Was 144, Your Honor, withdrawn,
5 or my records show I believe that's one of ours?

6 MR. CARRATHERS: 144 was --

7 MS. ENDEJAN: Was that withdrawn?

8 MR. CARRATHERS: No, 144 was in.

9 MS. ENDEJAN: Okay.

10 JUDGE SCHAER: To make sure there's no
11 ambiguity, Exhibit 144 has been offered. Is there any
12 objection to its entry?

13 That document is admitted.

14 Getting back to my question about Exhibit
15 300, do the parties want this included in the record or
16 not included in the record? It will be part of the
17 official file. It's been marked for identification, but
18 I did not see any reason why it needed to be an exhibit.

19 MR. KOPTA: I think as long as it's included
20 in the file, given that we have a fairly extensive
21 transcript discussion of it, it would make sense that it
22 be maintained as part of the record. I don't really
23 have a position on whether or not it should be an
24 exhibit.

25 JUDGE SCHAER: Would you like it to go in as

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1 an illustrative exhibit so if you need to refer to it,
2 it's there?

3 MR. KOPTA: I think that might be beneficial.

4 JUDGE SCHAER: So I will admit Exhibit 300,
5 anybody object?

6 MS. ENDEJAN: No, Your Honor.

7 JUDGE SCHAER: Admit Exhibit 300 as an
8 illustrative exhibit.

9 MS. SINGER NELSON: What is identified as
10 Exhibit 300, if I may ask?

11 JUDGE SCHAER: That's the settlement
12 stipulation.

13 MS. SINGER NELSON: That's what I thought.

14 JUDGE SCHAER: And at this point, I would
15 like to mark for identification as Exhibit 301, excuse
16 me, let's make that part of the 400 series, as Exhibit
17 404 a document that has been provided to me by Verizon.
18 It is entitled at the top Verizon Offer of Proof, and
19 would you address this, please, Ms. Endejan.

20 MS. ENDEJAN: Yes, Your Honor. What appears
21 on Exhibit 404 is a listing of all the testimony that
22 was stricken by the Commission, and we rather than read
23 this all into the record, we want to preserve all of our
24 appellate rights and the record by making a formal offer
25 of proof, and Verizon had it been allowed to introduce

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1 the testimony that's listed on this document would have
2 done so, and we would ask that this just be admitted to
3 the record as an offer of proof instead of going through
4 each and every piece of testimony.

5 JUDGE SCHAER: And let me ask the other
6 parties, are you satisfied with the offer of proof being
7 made in this way, and will you work with this as an
8 appropriate offer of proof should you be in a situation
9 to deal with it in an appellate setting?

10 MR. KOPTA: Yes, Your Honor, I think that
11 this is the appropriate way to deal with it, to have the
12 list be an exhibit. And certainly there is sufficient
13 pleadings and orders in the record to explain why this
14 testimony was stricken and why AT&T believes that that
15 was the appropriate action. And at such time as that
16 becomes an issue in a reviewing court, then we would
17 have no problem with there being any procedural issue
18 with respect to Verizon's having preserved its rights in
19 this matter.

20 JUDGE SCHAER: Ms. Singer Nelson.

21 MS. SINGER NELSON: We would agree with
22 statements by Mr. Kopta and would have no problem with
23 having the offer of proof be presented the way Verizon
24 suggests.

25 JUDGE SCHAER: Ms. Smith.

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1 MS. SMITH: Staff concurs.

2 JUDGE SCHAER: All right. Then I am going to
3 admit Exhibit 404 to make it part of this record as
4 representing an offer of proof by Verizon of evidence it
5 would have placed in the record had it been allowed to
6 do so.

7 Is there anything more to come before us?

8 MS. SMITH: Yes, Your Honor.

9 JUDGE SCHAER: Go ahead, Ms. Smith.

10 MS. SMITH: Yesterday during
11 cross-examination, Staff witness Betty Erdahl was asked
12 a question subject to check regarding the number of
13 financial reports Verizon Northwest files each year with
14 the Washington Utilities and Transportation Commission.
15 She was asked to agree subject to check if that number
16 was 17. She agrees to that, but with the caveat that
17 the 17 reports don't include any affiliate reporting.

18 JUDGE SCHAER: Thank you.

19 Is there anyone who feels a need to respond
20 to that?

21 All right, anything further to come before us
22 today?

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

24 MS. ENDEJAN: No, thank you, Your Honor.

25 JUDGE SCHAER: Thank you all. It's a well

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1 run hearing or a well argued hearing, and I appreciate
2 how counsel cooperated and worked well with each other.
3 Thank you very much.

4 MS. ENDEJAN: Actually, I would like to state
5 for the record that I recognize that this is, what's the
6 word, public employee appreciation week.

7 MS. SMITH: Yes, it is.

8 MS. ENDEJAN: And I think that those of us
9 who are not public employees would probably want to say
10 thank you for all the hard work you do.

11 MR. KOPTA: Absolutely.

12 MS. SMITH: Thank you.

13 JUDGE SCHAEER: We're off the record.

14 (Hearing adjourned at 7:00 p.m.)

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