



1           The parties were present as follow:

2           WASHINGTON UTILITIES AND TRANSPORTATION  
3           COMMISSION STAFF by GREGORY TRAUTMAN, Assistant  
4           Attorney General, 1400 South Evergreen Park Drive  
5           Southwest, Olympia, Washington 98504.

6           U S WEST COMMUNICATIONS by EDWARD T. SHAW,  
7           and MOLLY HASTINGS, Attorney at Law, P.O. Box 21225,  
8           Seattle, Washington 98111.

9           TCA, PUGET SOUND CHAPTER, and TRACER by  
10          ARTHUR BUTLER, Attorney at Law, 1201 Third Avenue,  
11          Suite 2850, Seattle, Washington 98101.

12          DEPARTMENT OF INFORMATION SERVICES by  
13          ROSELYN MARCUS, Assistant Attorney General, 905 Plum  
14          Street, Building 3, P.O. Box 40100, Olympia,  
15          Washington 98504-0100.

16          PUBLIC INTEREST by DONALD T. TROTTER,  
17          Assistant Attorney General, 900 Fourth Avenue, Suite  
18          2000, TB-14, Seattle, Washington 98164-1012.

19          DIGITAL DIRECT Of SEATTLE, and TCG SEATTLE  
20          by GREGORY KOPTA, Attorney at Law, 2600 Century  
21          Square, 1501 Fourth Avenue, Seattle, Washington  
22          98101.

23          METRONET SERVICES CORPORATION and MCI and  
24          ATS by BROOKS E. HARLOW, Attorney at Law, 601 Union  
25          Street, Suite 4400, Seattle, Washington 98101-2352.

26          CITY OF BELLEVUE by DAVID KAHN, Assistant  
27          City Attorney, 11511 Main Street, Bellevue, Washington  
28          98009-9012 and CAROL ARNOLD, 5000 Columbia Center,  
29          Seattle, Washington 98104.

30          ASSOCIATION OF WASHINGTON CITIES by JOHN  
31          NETTLETON, Attorney at Law, Suite 403, 1102 Broadway  
32          Plaza, Tacoma, Washington 98402.

33          WASHINGTON STATE SCHOOL DIRECTORS ASSOCIATION  
34          and THE EVERGREEN STATE COLLEGE by JAN FRICKELTON,  
35          Assistant Attorney General, P.O. Box 40100, Olympia,  
36          Washington 98504.

37          WITA by RICHARD A. FINNIGAN, Attorney at  
38          Law, 1201 Pacific Avenue, Suite 1100, Tacoma,  
39          Washington 98402.

## 1 I N D E X

2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	EXAM
3	M. OWEN	118	120,148,166			
4			175,181,193			
5			198,223			
6						
7	G. REES	245	248, 275			
8						
9						
10	EXHIBIT	MARKED	ADMITTED			
11	T-1		120			
12	20	139	143			
13	T-2		248			
14	3		248			
15	4		248			
16	5		248			
17	C-6		248			
18	7		248			
19	C-8		248			
20	C-9		248			
21						
22						
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1 P R O C E E D I N G S

2 JUDGE CANFIELD: This hearing will please  
3 come to order. The Washington Utilities and  
4 Transportation Commission has set for hearing at this  
5 time and place docket Nos. UT-930957, UT-931055, and  
6 UT-931058, each entitled Washington Utilities and  
7 Transportation Commission, Complainant, vs. U S West  
8 Communications Inc., Respondent. This hearing is  
9 being held at Olympia, Washington on Monday, May 2,  
10 1994. Elmer Canfield, administrative law judge with  
11 the Office of Administrative Hearings, is conducting  
12 today's hearing.

13 As indicated on the notice of hearing, the  
14 purpose is to receive the direct evidence and  
15 cross-examination of the respondent today. I would  
16 like to begin by taking appearances, beginning with  
17 the respondent, please.

18 MR. SHAW: Ed Shaw and Molly Hastings for  
19 the respondent, U S West Communications.

20 JUDGE CANFIELD: Maybe we can just continue  
21 down the counsel table then, please.

22 MR. HARLOW: Good morning, Your Honor.  
23 Brooks Harlow appearing for MetroNet Services  
24 Corporation and also here to petition to intervene on  
25 behalf of MCI Telecommunications Corporation and Access

1 Transmission Services, Inc.

2 MR. FINNIGAN: Rick Finnigan appearing on  
3 behalf of Washington Independent Telephone Association.

4 JUDGE CANFIELD: Can I get addresses as I  
5 go along, too.

6 MR. FINNIGAN: The firm name is Vanderberg,  
7 Johnson & Gandara. Address is 1201 Pacific Avenue,  
8 Suite 1900, Tacoma, Washington, 98402.

9 JUDGE CANFIELD: Thank you. Next.

10 MR. KOPTA: My name is Gregory Kopta with  
11 the law firm of Davis Wright Tremaine. We're here  
12 representing Digital Direct of Seattle, TCG Seattle and  
13 seeking to intervene in this matter. The address is  
14 2600 Century Square, 1501 Fourth Avenue, Seattle,  
15 Washington, 98101.

16 JUDGE CANFIELD: Thank you. Next.

17 MR. BUTLER: Arthur A. Butler, appearing on  
18 behalf of intervenors Tracer and Puget Sound Chapter  
19 of TCA. Address is 1201 Third Avenue, Suite 2850,  
20 Seattle, Washington, 98101.

21 MS. MARCUS: Roselyn Marcus, assistant  
22 attorney general representing the Department of  
23 Information Services. Address is 905 Plum  
24 Street, P.O. Box 40100, Olympia, Washington, 98504.

25 JUDGE CANFIELD: Thank you. Next.

1           MR. KAHN: David Kahn, assistant city  
2 attorney appearing on behalf of the city of Bellevue.  
3 Also appearing for the city of Bellevue is Carol  
4 Arnold of the Preston Thorgrimson law firm. The  
5 address for the city of Bellevue is 11511 Main Street,  
6 Bellevue, Washington, 98009.

7           And Mr. Examiner, at the conclusion of the  
8 introduction of appearances, there is a statement that  
9 Ms. Arnold needs to make for the record before  
10 proceeding with the hearing this morning.

11           JUDGE CANFIELD: Okay. Next.

12           MR. NETTLETON: John Nettleton appearing  
13 for the Association of Washington Cities. I'm with  
14 the law firm of Smith, Alling, Lane. Address is 1102  
15 Broadway Plaza, Tacoma, Washington, 98402.

16           JUDGE CANFIELD: Last time we had Robert  
17 Mack here, so is there a change of address or is it  
18 the same?

19           MR. NETTLETON: It's the same law firms,  
20 your Honor.

21           JUDGE CANFIELD: Next, please.

22           MR. TROTTER: Donald T. Trotter, assistant  
23 attorney general, public counsel section. My address  
24 is 900 Fourth Avenue, Suite 2000, Seattle, 98164.

25           JUDGE CANFIELD: Thank you.

1           MR. TRAUTMAN: Greg Trautman for Commission  
2 staff, assistant attorney general. The address is  
3 1400 South Evergreen Park Drive Southwest, Olympia.

4           JUDGE CANFIELD: Any others? Any other  
5 appearances?

6           MS. FRICKELTON: Jan Frickelton, assistant  
7 attorney general appearing for the Washington State  
8 School Directors Association and the Evergreen State  
9 College. My address is 905 Plum Street, Olympia,  
10 98504.

11          JUDGE CANFIELD: I will have to ask  
12 everyone to speak up, please. Are you appearing for  
13 Kent school district today?

14          MS. FRICKELTON: No. I think their  
15 intention was to withdraw and their representation  
16 will come through the Washington State School  
17 Directors Association.

18          JUDGE CANFIELD: I haven't heard from them  
19 but that's your understanding?

20          MS. FRICKELTON: That was the last time I  
21 talked to their attorney she said that's what they  
22 were going to do.

23          JUDGE CANFIELD: Okay. We had deferred  
24 action on the Kent school district petition to  
25 intervene until further word, and that's the latest

1 word on it that they intend to withdraw their petition  
2 to intervene, so I will be looking for something in  
3 the mail on that then. Any other appearances today?

4 Let the record reflect there are none being  
5 made at this time. We do have some other parties that  
6 were involved in the matter that I haven't heard from  
7 them one way or the other whether they plan to appear  
8 today, Social and Health Services, GTE, Yakima County,  
9 King County, so having no word from them, we will just  
10 proceed in their absence.

11 There are some preliminary-type matters  
12 that we need to address. There was one brought up  
13 earlier by Mr. Kahn indicating that he or Ms. Arnold  
14 had a statement or a preliminary-type matter to  
15 address?

16 MR. KAHN: That's correct, Your Honor.

17 MS. ARNOLD: Your Honor, I do. I'm with the  
18 law firm of Preston Gates and Ellis. One of the  
19 partners is the spouse of Chairman Sharon Nelson. I  
20 have not had the opportunity to check with the other  
21 parties, there's so many parties, but Mr. Shaw on  
22 behalf of U S West has consented to have the chair hear  
23 the full case regardless of the relationship there, and  
24 so I wanted to disclose that on the record at this  
25 time.



1 JUDGE CANFIELD: One of the partners of the  
2 law firm is the brother of the chairman?

3 MS. ARNOLD: Spouse.

4 JUDGE CANFIELD: Spouse. Any comments one  
5 way or the other, Mr. Shaw, on that?

6 MR. SHAW: As Ms. Arnold related, the  
7 company has no objection, sees no conflict of  
8 interest.

9 JUDGE CANFIELD: Okay. So noted for the  
10 record. There was that notice of appearance filed  
11 with the Commission by Ms. Arnold as cocounsel with  
12 Mr. Kahn on behalf of the city of Bellevue, and I  
13 assume that was served on all parties. There is a  
14 certificate of service attached, so if you don't have  
15 a copy of that ask Ms. Arnold for a copy. I believe  
16 copies were served on all copies of record, Ms. Arnold?

17 MS. ARNOLD: Yes, they were. They were  
18 supposed to have been.

19 JUDGE CANFIELD: Okay. There was also a  
20 substitution of counsel filed by Mr. Trautman for Sally  
21 Brown, I believe you're referring to her. Sally G.  
22 Johnston at the last session withdraws as counsel for  
23 staff and substituting for her is Gregory J. Trautman,  
24 assistant attorney general, and that was filed with the  
25 Commission and copies were served on all parties of

1 record, Mr. Trautman?

2 MR. TRAUTMAN: Yes.

3 JUDGE CANFIELD: And as was earlier  
4 indicated, there are a couple of late petitions to  
5 intervene pending, and there were also a few letters  
6 on the issue of possible waiver of the initial order  
7 in this matter and have the matter go directly to the  
8 Commission. I haven't heard from most of the parties  
9 on that, but we did receive letters from a few of the  
10 parties, public counsel, staff, Tracer, TCA and  
11 Metronet and if there were any additional letters or  
12 positions on that I haven't heard them yet. Has there  
13 been any change as far as the company is concerned on  
14 the waiving of an initial order?

15 MR. SHAW: Yes, Your Honor. As we  
16 indicated, as you requested on the 22nd I guess it was,  
17 in our reply to the oppositions to our motion, we  
18 indicated the company's willingness to waive the  
19 proposed order and that is still our position.

20 JUDGE CANFIELD: Maybe I could just have  
21 that issue addressed at the outset by the parties we  
22 haven't heard from, then. We do have to consider the  
23 late petitions as well. Take those in either order, I  
24 guess. Maybe we should take up the late petition  
25 matters first. I assume copies of those petitions,

1 Mr. Harlow, Mr. Kopta, were served on all parties of  
2 record.

3 MR. KOPTA: Yes, sir.

4 MR. HARLOW: Yes, Your Honor.

5 JUDGE CANFIELD: Why don't we address those  
6 at the outset. I don't know whether either party has  
7 anything in addition to add other than what's in the  
8 petition. If not, we'll go ahead and take comment on  
9 the petitions.

10 MR. HARLOW: I really don't, Your Honor,  
11 unless you have any questions.

12 JUDGE CANFIELD: No. Mr. Kopta.

13 MR. KOPTA: No, sir.

14 JUDGE CANFIELD: Mr. Shaw, any comments or  
15 objections to the late petitions to intervene?

16 MR. SHAW: Yes, Your Honor. We would  
17 object not only to the fact that they're late without  
18 adequate reason, but also because they're not proper  
19 intervention in the first place. Like the Metronet  
20 intervention that we objected to, both of these  
21 petitions essentially recite that after reading the  
22 notice of hearing and discussing it with staff they  
23 did not realize that the company was proposing to  
24 lower its business rates, restructure and lower its  
25 business rates in this filing. Of course that's been

1 of record since August of last year tariff filings.

2           The argument seems to be that the rationale  
3 for lowering the business rates as proposed by the  
4 company was not disclosed until the testimony was  
5 prefiled at our last hearing in this matter. I  
6 presume that relates to Ms. Owen's discussion of the  
7 company's views on pricing. All three of these late  
8 interventions suggest that they are potential --  
9 stress that -- potential competitors of U S West for  
10 local exchange service apparently. As I read the  
11 petitions, they don't have much interest in the  
12 increase in private line rates or the increase in  
13 directory assistance rates and are here to focus on the  
14 reduction in complex business rates.

15           That issue, of course, has been in this  
16 proceeding since we filed the tariffs back in August,  
17 as I mentioned, and the self-evident rationale that  
18 there is no longer a de jure monopoly in the state of  
19 Washington after action of the state Supreme Court  
20 and, therefore, all services are potentially  
21 competitive and need to be priced in light of that  
22 reality is really nothing new, and I don't think  
23 anybody can claim surprise, so it's really just an  
24 afterthought. They didn't show up on the pre-hearing  
25 conference and it's late. They're clearly late.

1 They're very sophisticated parties represented by  
2 sophisticated counsel. There's no real reason for not  
3 showing up other than second thoughts. There's a lot  
4 of parties in this case already, and the idea of  
5 admitting as full intervenors and full parties  
6 potential competitors of U S West in the future is a  
7 bad precedent and should not be granted in this case.

8 JUDGE CANFIELD: Thank you. Mr. Trautman.

9 MR. TRAUTMAN: We have no objection to the  
10 intervention.

11 JUDGE CANFIELD: And does Commission staff  
12 take any position one way or the other on either of  
13 the petitions?

14 MR. TRAUTMAN: No, we do not, Your Honor.

15 JUDGE CANFIELD: Mr. Trotter, any comments  
16 on the petitions?

17 MR. TROTTER: Well, it just occurred to me  
18 that Mr. Shaw's description of the nature of the  
19 testimony on the competition issue is quite a bit  
20 different than what I read in the testimony and so  
21 maybe the testimony is what needs to be revised here to  
22 more clearly state what the issues are on that general  
23 topic. I don't see any reason why these intervenors  
24 should not be let in that is different for the ALJ  
25 letting WITA and GTE in. They're both apparently

1 interested in precedential nature of certain issues and  
2 rather -- although these intervenors may in fact be  
3 more directly impacted, particularly one of  
4 Mr. Harlow's clients may be more directly impacted than  
5 the WITA and GTE interests which are not customers of  
6 any of these services that are being repriced. So does  
7 appear that with consistency would require their --  
8 honoring their motion or granting their motion.

9 JUDGE CANFIELD: I was going to get back to  
10 Mr. Kopta and Mr. Harlow. Let's do that one at a  
11 time. I don't particularly care in which order.

12 MR. HARLOW: Thank you, Greg. Your Honor,  
13 it's always hard to tell where a case is going to go  
14 until the final order comes out of the Commission.  
15 Parties needs to try and predict as best they can  
16 based on what they've seen and then allocate their  
17 limited resources as best they can, and certainly the  
18 Commission doesn't encourage people to intervene  
19 simply because some issue might potentially come out  
20 of a final order that might affect them. So it is a  
21 guessing game contrary to Mr. Shaw's assertion that  
22 MCI -- sounds like he almost said was dropping the  
23 ball. I can assure the Commission that we provided MCI  
24 with the initial filing months and months ago and at  
25 that time our best guess was that this case wasn't

1 going anywhere that would have any potential  
2 precedential value of concern to MCI, and we then sent  
3 testimony to MCI and suddenly it appeared that this  
4 case does have that potential. Now we still don't know  
5 where this case is going. MCI's participation is  
6 expected to be quite limited, same for ATS, as I think  
7 you can tell from our cross estimates which were very  
8 limited. But most importantly, it now appears that  
9 this case does have potential precedential concerns and  
10 is no longer what it was when it was filed, which was  
11 something that looked like the traditional  
12 miscellaneous filing under U S West.

13           There was no prejudice pointed to by  
14 Mr. Shaw. We don't see any that could arise from the  
15 fact that the interventions are late. We think  
16 clearly they would have been granted had they been  
17 timely since Mr. Trotter pointed out MCI and ATS are in  
18 similar positions to Metronet, WITA and GTE and all of  
19 those petitions were granted as well, so we would urge  
20 you to grant the petitions so that these two parties  
21 may protect their interests as they may be impacted as  
22 this case unfolds. Go ahead.

23           MR. KOPTA: Yes. I would echo the comments  
24 of Mr. Harlow and add that it's a little bit  
25 disingenuous given that these filings were made back

1 in August, I believe, of last year and the Supreme  
2 Court's decision lifting what had been perceived as a  
3 de jure monopoly on exchange services did not come  
4 down until I believe it was March of this year. We  
5 had no reason to believe based on looking at the  
6 filings that U S West made and in our conversations  
7 with staff to know that U S West as reflected in the  
8 testimony was beginning to implement a competitive  
9 pricing scheme that, at least according to the  
10 testimony, provides that this is the first step down  
11 the road of realigning all of U S West's prices to  
12 respond to the allegedly competitive marketplace in  
13 Washington and that is of big interest and concern and  
14 directly affects DDS and TCG.

15 JUDGE CANFIELD: Anything further that we  
16 haven't addressed?

17 MR. SHAW: Your Honor, primary reason for  
18 our objection to these late interventions was as  
19 stated, that it's been apparent on the face of it for  
20 some time what the issues are and we don't believe that  
21 anything has changed. The changing environment,  
22 particularly in Washington, has been well known to all  
23 parties. Additionally, we consider it inappropriate  
24 to allow competitors or potential competitors  
25 intervention in U S West's tariff cases on such a slim



1 showing because at that point they can under the  
2 Commission's rules get full access to all their  
3 discovery and proprietary data of the company, and with  
4 such a slim showing of interest and particularly late,  
5 if the Commission grants these late interventions we  
6 would additionally request that these parties not have  
7 access to the company's proprietary data if their only  
8 basis for intervention is as potential competitors of U  
9 S West.

10 JUDGE CANFIELD: Any comment on the last  
11 points addressed by Mr. Shaw from either Mr. Harlow or  
12 Mr. Kopta?

13 MR. HARLOW: Well, it sounds as though  
14 Mr. Shaw is asking really almost a punishment of MCI  
15 and ATS as a condition of intervention. I think it's  
16 very inappropriate in saying that if you're on time you  
17 can be trusted with the data and if you're late you  
18 can't be. And I think MCI and ATS would be insulted at  
19 that insinuation. Protective order is in place. Mr.  
20 Shaw has raised this concern about proprietary data  
21 numerous times in the past, and so far as I know that's  
22 never been the basis for denying an intervention. We  
23 have a mechanism for protecting the data, and I think  
24 Mr. Shaw's suggestion is totally inappropriate as a  
25 condition for intervention.

1 JUDGE CANFIELD: Any comments, Mr. Kopta?

2 MR. KOPTA: Yes. I would like to add that  
3 DDS and TCG are existing competitors of U S West. We  
4 currently provide private line telecommunications  
5 services in direct competition with U S West, and on  
6 April 21st of this year we filed for authority from the  
7 Commission to offer switched intraexchange services  
8 which would also be in direct competition with U S  
9 West, so I believe we have made the requisite showing  
10 that we are indeed interested in the way that U S West  
11 prices its services in response to competition.

12 JUDGE CANFIELD: Although I don't want to  
13 add to our service list that is already quite  
14 voluminous, as has been referred to, I am going to  
15 find that good cause has been shown for the late  
16 petitions, and rule that the petitioners have  
17 demonstrated substantial interest in the issues. I am  
18 going to be consistent with my prior rulings, and I  
19 know they were objected to by Mr. Shaw and that's a  
20 matter of record, so the objection to these late  
21 petitions is also so noted of record, but I will grant  
22 the late petitions for intervention by MCI and Access  
23 Transmission Services, as well as Digital Direct and  
24 TCG and it's so noted also that they're not going to  
25 unduly prolong and broaden the hearings in the matter,

1 and I think the estimates, especially of Mr. Harlow,  
2 are quite minimal as far as cross-examination goes and  
3 Mr. Kopta's are a bit broader, but that may be reduced  
4 somewhat by other questioning in the matter, which  
5 would be encouraged. I would like to minimize the  
6 duplication of questioning to every extent possible in  
7 the matter so that we can get through the testimony in  
8 a timely and manageable way, so with that, I think all  
9 parties earlier had agreed to work in that regard, and  
10 I would ask the new petitioners to do the same thing,  
11 and with that those late petitions are granted.

12           There were a few other preliminary matters.  
13 Let's see what we've got. We were going to address  
14 the possibility of waiving the initial order in the  
15 matter, and I believe we've heard in the affirmative  
16 on that from several of the parties and not some of  
17 the others. Any comments on the waiver issue, Mr.  
18 Harlow?

19           MR. HARLOW: MCI and ATS would waive an  
20 initial order.

21           JUDGE CANFIELD: And Mr. Finnigan.

22           MR. FINNIGAN: WITA contained a section in  
23 its response to the motion in which it stated that it  
24 would waive an initial order.

25           JUDGE CANFIELD: And Mr. Kopta?

1 MR. KOPTA: Digital Direct and TCG would  
2 also waive an initial order.

3 JUDGE CANFIELD: I think we've already  
4 heard from Mr. Butler.

5 MR. BUTLER: Yes.

6 JUDGE CANFIELD: Okay. And Ms. Marcus.

7 MS. MARCUS: Department of Information  
8 Services would waive the initial order.

9 JUDGE CANFIELD: Mr. Kahn.

10 MR. KAHN: City of Bellevue would waive the  
11 initial order, Your Honor.

12 JUDGE CANFIELD: And Mr. Nettleton.

13 MR. NETTLETON: The Association of  
14 Washington Cities would also waive the initial order.

15 JUDGE CANFIELD: And I believe we've got a  
16 letter from you, Mr. Trotter, on that as well.

17 MR. TROTTER: Yes. We agreed to the waiver  
18 if additional time would be -- part of the additional  
19 time given us by such a waiver would be allocated to  
20 the parties not just to the decision maker.

21 JUDGE CANFIELD: So that's a conditional  
22 waiver?

23 MR. TROTTER: Yes.

24 JUDGE CANFIELD: So you're talking about  
25 changing the schedule that was addressed at the last

1 session?

2 MR. TROTTER: Yes.

3 JUDGE CANFIELD: And Mr. Trautman.

4 MR. TRAUTMAN: We concurred in the  
5 conditional waiver for the same reasons to give  
6 additional time to the parties and to the decision  
7 maker.

8 JUDGE CANFIELD: I don't know that just the  
9 waiver in and of itself is adding a lot of time to the  
10 process as it stands. We've still got a short time to  
11 resolve the matter between briefs and the suspension  
12 date, which the company agreed to extend through the  
13 end of August. Is that still the company position as  
14 far as the suspension? I know you agreed to waive it  
15 that one month period, Mr. Shaw.

16 MR. SHAW: Yes, Your Honor. For an  
17 effective extension of the time available to decide  
18 this matter of 60 days, two months.

19 JUDGE CANFIELD: We don't have word from  
20 some of the parties on the waiver issue. They're not  
21 here today. As far as allowing additional time for  
22 the parties, was there any particular suggestion that  
23 any of the ones on the conditional waiver side had to  
24 make? Any suggestions as far as possible change in  
25 the schedule?

(COLLOQUY)

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1 MR. TROTTER: Does this need to be on the  
2 record?

3 JUDGE CANFIELD: No. We can take a short  
4 break off the record and discuss that. Take a short  
5 recess.

6 (Recess.)

7 JUDGE CANFIELD: We're back on the record  
8 after a recess during which time there was some off  
9 the record discussion about the waiver issue, and we  
10 had taken comments on the record from all except  
11 Ms. Frickelton, we neglected to get her comment on the  
12 record. That was brought to my attention off the  
13 record so maybe I could get your comment on the record,  
14 Ms. Frickelton, with regard to your position on waiving  
15 an initial order.

16 MS. FRICKLETON: Yes. The Washington  
17 State School Directors Association and Evergreen State  
18 College agree to the waiver.

19 JUDGE CANFIELD: Off the record we had  
20 discussed specifically what might be done to the  
21 schedule to accommodate some of the conditional  
22 waivers, and I believe there was a general consensus  
23 that adding two weeks to the dates is what was being  
24 requested by those conditional waivers, and I don't  
25 know whether that would be workable with room

1 scheduling and that. We also haven't heard from some  
2 of the parties that would have to be polled and get  
3 their positions on the waiver in the first instance,  
4 so I will certainly think about that further and come  
5 back to it. So I will try to resolve that before the  
6 end of this week's session, at least devise some way  
7 of handling that, so we will take that under  
8 advisement for the time being. Are there any other  
9 preliminary matters before we get started today?

10 MR. BUTLER: Your Honor, the request from  
11 DIS that at a minimum the date for filing intervenor  
12 testimony be changed from Friday to that following  
13 Monday.

14 JUDGE CANFIELD: That's without even a  
15 waiver. That's just a request that I believe it was  
16 discussed in general. I think Mr. Trotter's and  
17 Mr. Trautman's position was adding two weeks to all of  
18 those dates, but short of that, there was also a  
19 request of changing one date from the Friday to the  
20 Monday, and I guess that's the prefiling date for  
21 staff, public counsel and intervenors's testimony from  
22 May 20 --

23 MS. MARCUS: To May 23rd.

24 JUDGE CANFIELD: -- to the following Monday.  
25 Yeah. I didn't specifically poll the individuals on

1 that. Any comments, Mr. Shaw, on that request to  
2 change that prefiling date from the Friday, May 20, to  
3 Monday, May 23?

4 MR. SHAW: Your Honor, I was just trying to  
5 remember what the remaining schedule was, and I wasn't  
6 finding it in my calendar.

7 JUDGE CANFIELD: Well, the date beyond that  
8 is prefiling rebuttal June 6.

9 MR. SHAW: Your Honor, we have the  
10 short end of the schedule in having to get our  
11 rebuttal in a week afterwards, so I'm reluctant to  
12 agree to even a one-day extension in the prefiling of  
13 the intervenors' cases. It doesn't give us any chance  
14 without that weekend to get any discovery out before we  
15 have to file our rebuttal.

16 JUDGE CANFIELD: I recognize it is tight  
17 for all parties concerned. I will look at that a  
18 little more closely along with the other issue that I  
19 was going to be looking at as far as the possible  
20 waiver and of the changing of dates in that respect,  
21 but for the time being I will leave the earlier  
22 schedule as is, and I will certainly look at the  
23 possibility of changing that date from the Friday to  
24 the Monday as well as the adding the two weeks on if  
25 we can get waiver of them, all individuals. Certainly



1 take that under advisement as well and get back to the  
2 parties on that, so as it is we'll leave it as it was  
3 originally discussed.

4 As of yet, there's been no Commission  
5 action on U S West's motion for Commission-directed  
6 settlement, so that will be in the works as well soon,  
7 I hope.

8 Are there any other preliminary matters  
9 that we haven't touched upon this morning?

10 Hearing none, why don't we proceed then.

11 Mr. Shaw.

12 MR. SHAW: Yes. We call Mary Owen to the  
13 stand.

14 Whereupon,

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

18 JUDGE CANFIELD: At the pre-hearing  
19 conference we did assign numbers to the prefiled  
20 testimony and exhibits, and the testimony of Mary S.  
21 Owen was marked as Exhibit T-1 for identification.

22 Mr. Shaw, your witness has been sworn.

23

24 DIRECT EXAMINATION

25 BY MR. SHAW:

1 Q. Would you state your name, address, and  
2 employer for the record, please, Ms. Owen?

3 A. Yes. My name is Mary Owen. I work for U S  
4 West Communications, Incorporated. My address is 1600  
5 7th Avenue, Room 2905, Seattle, Washington.

6 Q. Did you have prepared by you or under your  
7 direction what's been premarked as Exhibit T-1, your  
8 direct testimony in this case?

9 A. Yes.

10 Q. Do you have any additions or corrections  
11 that you need to point out prior to that testimony  
12 being admitted?

13 A. Yes. I have one small correction on page  
14 15, line 18 and line 20. There was a \$50,000 error  
15 in revenue amount. Line 18 that should read,  
16 \$7,550,188, and that affects line 20. Line 20 now  
17 reads \$1,070,467. That's the only correction.

18 Q. With those corrections, is Exhibit T-1 true  
19 and correct to the best of your knowledge?

20 A. Yes, it is.

21 MR. SHAW: Your Honor, move the admission  
22 of T-1 and tender the witness.

23 JUDGE CANFIELD: Okay. Let me just  
24 clarify, that's line 18 on page 15 that the figure is  
25 \$7,550,188?

1 THE WITNESS: That's correct.

2 JUDGE CANFIELD: And then on line 20, the  
3 figure is 1,070,467?

4 THE WITNESS: Right.

5 JUDGE CANFIELD: Any objections to the  
6 exhibit?

7 Let the record reflect that there are no  
8 objections to the exhibit and Exhibit T-1 is so  
9 entered into the record.

10 (Admitted Exhibit 1.)

11 JUDGE CANFIELD: Ms. Owen is available for  
12 cross-examination, Mr. Shaw?

13 MR. SHAW: Yes, Your Honor.

14 JUDGE CANFIELD: Mr. Trautman.

15

16 CROSS-EXAMINATION

17 BY MR. TRAUTMAN:

18 Q. Good morning.

19 A. Good morning.

20 Q. You've indicated, Ms. Owen, that you're  
21 responsible, I believe, for two areas generally  
22 speaking, one being U S West's general pricing policy  
23 and the other being U S West's proposed restructure of  
24 the complex business line prices?

25 A. That is correct.

1 Q. Regarding the first area, do you have with  
2 you the company's response to staff's data request No.  
3 2 which dealt with the company's fundamental pricing  
4 policy?

5 A. Yes, I do. Staff's request?

6 Q. Yes. It would be marked as W U T --

7 A. WUT. I have one staff and then I also  
8 have WUT.

9 Q. That would be WUT-01-002?

10 A. Yes, I have that.

11 Q. The question was with regard to the  
12 testimony beginning on page 2, line 26, when did U S  
13 West adopt, "the fundamental policy of pricing to  
14 reflect market conditions and sending appropriate  
15 economic signals while covering relevant costs." Do  
16 you see that?

17 A. Yes.

18 Q. And could you read the company's response  
19 for the record.

20 A. Yes. "For many years, telecommunications  
21 companies, including U S West C, have priced to meet a  
22 revenue requirement. Upon the advent of divestiture,  
23 regulated companies began to price to the market and  
24 then USWC specifically began focusing more on our  
25 customers and what they wanted for their telephone

1 service. Since that time, we are learning more about  
2 marketing and how to price our products and services.  
3 This learning has resulted in the policies which are  
4 described in Ms. Mary Owen's testimony."

5 Q. Thank you. Now, has this policy of U S West  
6 been committed to writing?

7 A. In that we are a market-based or  
8 market-focused company, I would say yes. I believe  
9 we've even said that in numerous proceedings that we  
10 are becoming a market-based company. When we went to  
11 our market unit, that was the whole thrust of it, to  
12 understand our customers better and then price our  
13 products and services to meet their needs and to meet  
14 the emerging competition.

15 Q. Is there any document, though, or set of  
16 documents which is referred to as U S West's  
17 fundamental pricing policy?

18 A. There may be. I do not have such a  
19 document in my possession.

20 Q. Are you aware of whether one exists at all?

21 A. I'm not aware. A lot of the work that's  
22 done with pricing is done on very defined groups of  
23 customers and products to meet those customers' needs,  
24 so each product manager may have some strategies for  
25 their product and that strategy is probably sometimes

1 written up, but something higher level than that, which  
2 is what I believe you're asking me, I don't know.

3 Q. Yes, because your testimony appears to  
4 refer not to an area-by-area policy but rather to an  
5 overall fundamental pricing policy.

6 A. Well, it does, and I think I said that  
7 overall we are pricing to the market and what our  
8 customers want. That's true. That's why we formed  
9 market units. What you asked me then is, is there  
10 something that says we are a market-based company, and  
11 I said I believe there have been presentations made  
12 that state that. I don't have those in my possession.

13 Q. If you can get those, could you provide  
14 them to staff as a record requisition?

15 MR. SHAW: Your Honor, I'm going to object  
16 to this record requisition as being far too vague. I  
17 think it's certainly been public knowledge for a long  
18 time that U S West C is the product of merging three  
19 old Bell system operating companies which then  
20 reorganized into market units. We have massive,  
21 massive amounts of documents discussing our pricing,  
22 both public documents and proprietary documents, and to  
23 undertake a document search just to find something that  
24 states what Ms. Owen has already testified to is  
25 extremely burdensome and absolutely unnecessary for

1 this record.

2 JUDGE CANFIELD: Is that something that  
3 might be reduced in scope following possible  
4 discussion with staff, Mr. Shaw?

5 MR. SHAW: Perhaps. I don't know quite  
6 what Mr. Trautman has in mind, but we have, as I say,  
7 probably crates and crates of documents discussing  
8 marketing issues.

9 MR. TRAUTMAN: Well, part of the difficulty  
10 of course is that this fundamental economic policy  
11 which is relied upon so greatly is undefined, and we  
12 were simply wondering if there are some documents that  
13 distill it down. Is there some policy which is in  
14 document form? U S West is relying on this greatly and  
15 yet can't seem to define precisely what it is or where  
16 it is.

17 MR. SHAW: Your Honor, U S West is relying  
18 on a self-evident proposition, as self-evident as night  
19 follows day, that companies in competitive markets need  
20 to price to the market. That is a very broad  
21 generalization that from U S West's viewpoint doesn't  
22 need to take any proof. If the staff wants to argue  
23 that  
24 U S West is not in a competitive market and can  
25 continue to price just based upon revenue requirement,

1 it's free to do that, but that is a factual issue that  
2 doesn't have anything to do with U S West's marketing  
3 philosophies.

4 JUDGE CANFIELD: What was the response to  
5 the question of whether there was a particular policy  
6 in document form? Maybe I could get some  
7 clarification from Ms. Owen on that before I rule.

8 THE WITNESS: Yes. What I commented was  
9 that I'm not aware of a document that says in one page  
10 or something like that what the overall pricing is.  
11 However, the establishment of market units within  
12 U S West was done specifically so we could start  
13 becoming a market-based company where we looked at  
14 customers' needs, customers' wants and competition.

15 If you need a document, we have so  
16 testified in other jurisdictions. I can cite both  
17 Iowa and I can cite Wyoming. If you want a document  
18 we also have the pricing principles that I stated  
19 beginning on page 3 in my testimony, which to me  
20 really reflect the basic philosophy that U S West is  
21 pursuing today, and what the market units are pursuing.

22 JUDGE CANFIELD: I think I will allow  
23 Mr. Trautman an opportunity to work with Mr. Shaw on  
24 that off the record. If you can pinpoint those  
25 documents that he would like copies of, I believe



1 Mr. Shaw indicated he would be willing to work  
2 informally with Mr. Trautman on that, but I do think  
3 that we would have to narrow it down somewhat and I  
4 think that could be handled on a more informal basis.  
5 I think we've got the witness' response as far as her  
6 knowledge of the matters, and I think she's certainly  
7 available today to undergo further questioning on that.  
8 So I will allow that to be handled informally between  
9 the parties.

10 (Record requisition 1.)

11 Q. Ms. Owen, when was the fundamental pricing  
12 policy adopted originally?

13 A. I believe the market units were established  
14 in approximately 1986, and I would say that  
15 marked-based pricing -- and there were exceptions  
16 prior to that, but I would say what we really view as  
17 learning to compete with other people that are  
18 nonregulated probably began in that time frame, and  
19 then evolved as most companies evolve and change as  
20 the criteria and the circumstances change.

21 Q. What do you mean by evolve, specifically?

22 A. When we were totally regulated and a  
23 monopoly-priced provider fully regulated by this  
24 Commission, a lot of our pricing dealt specifically  
25 with how do we keep residence basic exchange service

1 affordable. It did not look at what do we do to meet  
2 a DDS coming into Seattle and excluding it with a  
3 fiber ring, and over time we are becoming more  
4 sophisticated understanding what it is that the  
5 potential competitors are doing, how they're entering  
6 markets, and then we have to be flexible to respond to  
7 that changing need.

8           And so evolving over time is like us being  
9 down here (indicating) on the learning curve when we  
10 first started to become more aware of what it meant to  
11 have to really focus on customers, not that we didn't  
12 focus on customers before, but there was this  
13 overriding need to look at what do we do with universal  
14 service and how do we keep it affordable. We didn't  
15 look at this side and say what's reasonable for a  
16 business customer to pay, that was kind of irrelevant.  
17 So now what we're doing is we're getting up here on  
18 that learning curve, and that is an evolutionary  
19 process as we learn more, we become more understanding  
20 of what the market conditions are.

21           Q.     Who within U S West adopted the policy?

22           A.     I would say our president at that time was  
23 Jack McAllister adopted it when we established and  
24 authorized the establishment of market units.

25           Q.     How did he adopt it?

1           A.     He authorized the funding for the market  
2 units.

3           Q.     So is there what, a presidential fiat?

4           A.     His presidential fiat was saying times are  
5 changing. We know they're changing, technology is  
6 evolving, we need to become a market-based company so  
7 if you want to call that a presidential fiat, I guess  
8 it was.

9           Q.     So you referred to establishment of market  
10 units and is that the equivalent of a fundamental  
11 pricing policy?

12          A.     It might be considered that. I'm not sure  
13 how you define fundamental pricing policy.

14          Q.     How do you define it?

15          A.     I would say that the market units were  
16 given the charge to begin looking at their customers,  
17 what those customers' needs and what reasonable prices  
18 were for products to meet those needs. That's  
19 fundamental pricing policy.

20          Q.     I believe in your testimony you refer on  
21 page 8 to the ELI decision and that was in March of  
22 1994, was it not?

23          A.     Yes.

24          Q.     And yet your filing for this case was when?

25          A.     August of 1993.

1 Q. So that decision obviously could not have  
2 affected this fundamental pricing policy as you  
3 described, correct?

4 A. No, that's not true. If you have read over  
5 the last year to two years on what's happening  
6 nationwide, it is eminently obvious what is happening  
7 in the basic exchange arena, private arena switched  
8 access arena. You look at what's happened in New York,  
9 in Illinois, you look at what U S West is doing in  
10 Orlando, Florida with our partnership with Time Warner.  
11 Technology allows most anyone to come in now and  
12 participate in telecommunications and the provisioning  
13 of telecommunications. So just because we had one  
14 order here in Washington does not mean that we've had  
15 our head in the hole and are not looking at what's  
16 happening throughout the nation. We would be crazy if  
17 we didn't anticipate that. And we did.

18 Q. So you knew that the decision would come  
19 out the way it did, is that what you're saying?

20 A. No, I'm saying --

21 MR. SHAW: Your Honor, I object. The  
22 superior court reversed this Commission's attempt to  
23 hold local exchange to be a monopoly a couple of years  
24 prior to that. The decision referenced in Ms. Owen's  
25 testimony is the Wednesday morning meeting granting of

1 ELI's proforma application to provide the service, so I  
2 think the questions are extremely misleading.

3 MR. TRAUTMAN: Well, my question refers to  
4 the state Supreme Court decision, which I believe came  
5 out in March.

6 Q. Is that correct, March of 1994?

7 A. I don't know. Subject to check, I would  
8 guess it was in that time frame.

9 Q. But that obviously didn't play a role in  
10 your view of the fundamental economic -- fundamental  
11 pricing policy?

12 A. That is correct. We still want to be  
13 priced towards the market where customers want what  
14 our competition is going to be pricing at.

15 Q. But it didn't have anything to do with that  
16 case?

17 A. Not directly, no.

18 Q. How does the company view the current  
19 policy to be applicable? In other words, does it  
20 apply to all of U S West's services or only business  
21 services or only certain set of services?

22 A. In an ideal world it should apply to all  
23 services. We firmly believe that all services need to  
24 be above their long-run incremental costs. Doing  
25 anything other than that has potential anti-

1 competitive aspect and implications. In such an ideal  
2 world we would want to be able to compete levelly with  
3 everybody else, and we wouldn't want arbitrary  
4 restrictions put upon us that are not also put upon  
5 our competitors.

6 Q. You say in an ideal world. In the real  
7 world, how does U S West apply this policy?

8 A. U S West is trying to be proactive in moving  
9 to a world where competition exists, and it does exist.  
10 We've already heard from DDS and others that they're in  
11 direct competition with U S West in the private line  
12 arena, and what we are trying to do is have some kind  
13 of an orderly transition from a monopolist type of  
14 regulation and pricing to a pricing and regulation that  
15 better reflects the value that our customers receive  
16 and still allows us to maintain our competitive  
17 positioning while pricing above our long-run  
18 incremental costs with something also added for  
19 contribution.

20 Q. Now, is this fundamental policy one which  
21 will apply to all future rate filings of U S West?

22 A. The transition to that type of philosophy,  
23 yes, you should be seeing in most of our future  
24 filings.

25 Q. In all future filings?

1           A.     I can't state that.  I don't know what all  
2 future filings are.  To the best of my knowledge, it  
3 would be reflected, yes.

4           Q.     Do you know whether it's planned to apply  
5 to all future filings?

6           A.     It's my belief that it is.

7           Q.     In your testimony, you stated that  
8 U S West's policy was intended to send "appropriate  
9 economic signals."  Do you recall that?

10          A.     Yes, I do.

11          Q.     And do you have the company's response to  
12 WUTC data request No. 3?

13          A.     Yes.

14          Q.     Which asks the question, what is meant by  
15 the term "sending appropriate economic signals"?

16          A.     Yes.

17          Q.     And could you read the response for the  
18 record?

19          A.     Yes.  "Sending appropriate economic signals  
20 means that one is telling the marketplace and  
21 competitors what the appropriate price for a product is  
22 considering the cost and market conditions.

23          Q.     Who within U S West determines the  
24 appropriateness, if you will, of an economic signal?

25          A.     The product manager that handles each of

1 the various products within U S West is responsible for  
2 examining the price floor, which is the long-run  
3 incremental costs plus any imputation such as we have  
4 for toll, and then examines that price floor in  
5 relationship to competition, what's happening there,  
6 and what customers' expectations are and their  
7 willingness to pay, and you will find that when I  
8 talked about the three pricing principles, I go into it  
9 in more detail in my testimony. I can cite you the  
10 page if that would help.

11 Q. Is it decided at any higher level than the  
12 product manager level? Is that the only level? Is it  
13 decided by the board?

14 A. No.

15 Q. In any case?

16 A. No. The overall thrust, as we've been  
17 through, is to price based on what the customers want,  
18 what competition is and have them above cost within  
19 those parameters. Then the market product manager has  
20 responsibility for their products, and obviously they  
21 have someone to whom they report and that person would  
22 be involved in that, but generally product managers  
23 are the decision makers.

24 Q. Do you have with you the company's response  
25 to Commission staff data request No. 5, again would be



1 WUT 01-005?

2 A. Yes, I do.

3 Q. And the question there was with regard to  
4 the testimony on page 7, lines 1 and 2, "How does  
5 U S West define competition as used in that question."  
6 Do you see that?

7 A. Yes.

8 Q. Could you read the response?

9 A. "Competition as used in that question is  
10 defined as services provided by others which can meet  
11 customer needs and are the same or similar to U S West  
12 C's service offerings."

13 Q. Now, I believe you used the word  
14 competition several times in your testimony. Speaking  
15 more generally, when you have used that term  
16 competition elsewhere in the testimony, do you  
17 continue to use the same definition of competition  
18 that you have made a request response or are there  
19 other definitions?

20 A. No. As a general definition, that's  
21 probably appropriate.

22 Q. Can we use that definition each time you've  
23 used competition?

24 A. I have not gone through word for word to  
25 see if that is appropriate or not.

1 Q. Do you have a different definition of  
2 competition that you refer to?

3 A. Not necessarily, but you're asking me to  
4 take out of context something in my testimony and see  
5 if the general definition of competition that I gave  
6 you is applicable and I can't assert that it is  
7 although in most cases it should be.

8 Q. So is it your testimony that the presence  
9 of another provider is a sufficient standard upon  
10 which the Commission should judge request of the  
11 company to restructure rates for all of its services?

12 A. No. That's not what I'm saying. I'm  
13 saying competition is a continuing evolving type of a  
14 scenario that we're facing daily. We didn't have  
15 ELI's petition to provide intraexchange switched  
16 services until March of this year. That evolves over  
17 time. Competition is a much more global question when  
18 you're dealing with the philosophy of pricing and the  
19 fact that when you think about it we applied for this  
20 rate change in August of last year and here we are in  
21 May of this year. We have yet to have it approved.  
22 We have to anticipate what we think we need to go  
23 towards in order to meet the competition that's  
24 evolving extremely quickly, and yet it's been almost  
25 nine months and we still don't have what we thought

1 was a very small incremental step even approved yet.  
2 If you're talking about do we have effective  
3 competition, that's a different issue than what is  
4 generic competition and what do we do and how do we  
5 look at how we price towards that. They're totally  
6 separate issues.

7 Q. Would it be correct to say that U S West has  
8 viewed itself as having competitors for some years now  
9 which would include shared tenant service, STS or  
10 Centrex resellers?

11 A. That would be true.

12 Q. On page 7 of your testimony, it's on lines  
13 19 to 21, it was in response to the question, "What  
14 does this mean for the pricing of business basic  
15 exchange service in Washington?" You said that  
16 "Without a monopoly service provider, LEC's must begin  
17 moving the prices and structure of business basic  
18 exchange service to more appropriately reflect  
19 competitive market conditions." What did you mean by  
20 the phrase "without a monopoly service provider"?

21 A. What I was really referencing here was the  
22 fact that with the ruling in ELI being permitted to  
23 come in, we are no longer a monopoly service provider  
24 both in fact and in actuality here in Washington. So  
25 therefore we need to be allowed to start moving our

1 business rates to reflect that impending and existing  
2 competition that we have.

3 Q. So would you agree that the company still  
4 has a de facto monopoly, a monopoly in fact?

5 A. No. I don't believe we do.

6 Q. Are you responsible for policy as it  
7 regards the proposal to eliminate the term loops  
8 services?

9 A. Only to the extent -- Mr. Rees is your  
10 expert in that area. My responsibility or comment  
11 would simply be that to the extent that our pricing  
12 philosophy is to price all services above their  
13 long-run incremental costs, the term loops are  
14 currently not above their long-run incremental costs,  
15 so my responsibility is just going over those pricing  
16 principles and that the key there is that they're  
17 priced below cost, that Mr. Rees -- if you want more  
18 detail than that Mr. Rees would be the correct witness  
19 to talk to.

20 Q. Would you know why the company is proposing  
21 to eliminate the term loops services rather than just  
22 move them over to the private line tariff?

23 A. No. Mr. Rees would have to answer that.

24 Q. And would you know why the company decided  
25 not to study the costs specific to the term loops

1 increases?

2 A. No.

3 Q. That would be for Mr. Rees as well?

4 A. (Nodding head.)

5 JUDGE CANFIELD: That's a yes?

6 THE WITNESS: I'm sorry?

7 A. I was thinking at the same time it could be  
8 if you're asking a cost issue it could also be  
9 Ms. Santos-Rach, so I'm not sure of the thrust of your  
10 question, but one of those two could answer it.

11 MR. TRAUTMAN: Your Honor, I have an  
12 exhibit to mark for identification.

13 JUDGE CANFIELD: I will mark this document  
14 as the next exhibit number in order and that is  
15 Exhibit No. 20 for identification, and it's not a  
16 confidential document; is that correct?

17 MR. TRAUTMAN: That's correct.

18 Q. This is the first three pages of your  
19 response to our data request No. 9 which asks for a  
20 copy of the filing of U S West which initially  
21 established the five-line definition for determining  
22 the rate for a complex line and three pages are a  
23 letter of August the 20th, 1987 from Pacific Northwest  
24 Bell to Paul Curl?

25 A. I have it here.

1                   JUDGE CANFIELD: That's marked as Exhibit  
2 20 for identification.

3                   (Marked Exhibit 20.)

4           Q.       And do you recognize this as the cover  
5 sheet of the filing?

6           A.       Yes. I was not involved in this filing,  
7 but I do recognize it.

8                   MR. TRAUTMAN: I would move for admission.

9                   JUDGE CANFIELD: Any objections?

10           MR. SHAW: Excuse me, Mr. Trautman. You  
11 represent this is the advice letter of one of the  
12 filings in this case?

13                   MR. TRAUTMAN: Yes. It's the cover sheet  
14 accompanying the filing.

15                   MR. TROTTER: It's not in this case,  
16 though.

17                   MR. TRAUTMAN: No.

18                   THE WITNESS: This is '87.

19                   MR. TRAUTMAN: That was in the 1987 private  
20 line tariff case.

21                   MR. SHAW: Well, Your Honor, I don't think  
22 any foundation has been laid other than the fact that  
23 this is a company advice letter, which we certainly  
24 admit, from a 1987 case. Maybe the record should  
25 reflect a little better foundation than that before we

1 put it into evidence.

2 JUDGE CANFIELD: Mr. Trautman, maybe you  
3 can clarify that.

4 Q. You've indicated that you're responsible  
5 for the restructure of the complex business line  
6 prices; is that correct?

7 A. Yes.

8 Q. And is it correct that this cover letter,  
9 as you understand it, initially established the  
10 complex line definition which U S West is now proposing  
11 to change?

12 A. That's how I would read it, yes, but it  
13 has no relevance to what we're recommending today.

14 Q. Is this the policy that you have started  
15 from in developing the changes that you're  
16 recommending today?

17 A. No. This is not a policy. This is an  
18 existing structure which we do not agree with today.

19 Q. Is this the existing structure that you're  
20 seeking to change?

21 A. Yes. You can also find it in the tariff.  
22 This is the existing structure.

23 MR. TRAUTMAN: I would state it's relevant,  
24 if this is the structure they're starting from.

25 JUDGE CANFIELD: Any further comments, Mr.

1 Shaw?

2 MR. SHAW: Well, Your Honor, I don't mean  
3 to be difficult on this, but our existing rates are  
4 our existing rates which have the force of law, are  
5 deemed -- presumed to be fair, just and reasonable, and  
6 in this tariff filing we're proposing to change those  
7 rates in which the burden is upon us to do it. I  
8 don't know what this adds to the record at all. The  
9 company's advice letter of a tariff that was, if my  
10 recollection serves me correctly was a long time ago,  
11 was changed and modified before it was put into  
12 effect. So the advice letter doesn't represent the  
13 tariff that's actually in effect, and I would object  
14 to just admitting this advice letter. I don't see any  
15 relevance at all. It's what the company proposed lo  
16 many years ago and the Commission put something else  
17 into effect and those are the tariffs we have today.

18 JUDGE CANFIELD: Mr. Trautman, any  
19 additional comments?

20 MR. TRAUTMAN: No, Your Honor.

21 JUDGE CANFIELD: Was there going to be  
22 anything more recent than this? I believe Mr. Shaw  
23 indicates that there was some changes made before this  
24 was put into effect. I would like some clarification  
25 on that. I don't necessarily want to get something



1 into the record that's going to be of limited use or  
2 out of date by subsequent changes. I don't know if  
3 that's the case or not, but that's at least what I'm  
4 hearing in the objection.

5 MR. SHAW: Your Honor, I don't know that  
6 for sure. I should correct myself. You see in the  
7 first paragraph of this advice letter proposed Exhibit  
8 No. 20 talks about it's in response to a settlement  
9 agreement in Cause U-85-52, and so this seems to be  
10 some sort of a compliance filing, and I do not know  
11 whether or not the proposal of the company may, which  
12 was attached to this advice letter, was changed before  
13 it was actually allowed to go into effect by the  
14 company. I don't believe this witness knows that  
15 either, but it's too long ago.

16 MR. TROTTER: Well, Your Honor, I think the  
17 data request asked for the basis for the simple/complex  
18 definition, and this was a document supplied in  
19 response. I think the second paragraph -- excuse me --  
20 third paragraph of the letter clearly indicates to me  
21 that this was the redefinition that went into effect.  
22 It appears to me it's relevant for that historical  
23 basis, which I understood to be the reason for it being  
24 offered. We have no objection.

25 MR. SHAW: Your Honor, the data request was

1 for a copy of a filing, and of course that's what was  
2 supplied, the advice letter together with the tariff.

3 JUDGE CANFIELD: Okay. I can certainly  
4 allow that to be argued further if necessary, but I  
5 will allow it in for what it is and it can speak for  
6 itself as far as what use is to be made of it and if  
7 there's been any changes in the provisions before  
8 acted upon, I guess that could be pointed out. I  
9 haven't had a chance to fully read the letter myself,  
10 but I will allow it in to the record and the parties  
11 can argue its -- the weight to give to it in more  
12 detail as they choose. So I will admit it into the  
13 record as Exhibit 20.

14 (Admitted Exhibit 20.)

15 Q. Looking at the first page of the exhibit,  
16 Exhibit 20, on the eighth line from the bottom it  
17 states that "complex lines are defined as being part of  
18 a telephone system consisting of five or more lines  
19 per customer per building." Do you read that part?

20 A. Yes.

21 Q. Can you tell me, prior to the definition of  
22 complex lines, how both PBX and key lines were defined  
23 and rated?

24 A. I can tell you my understanding. At that  
25 time I was in Oregon and I can tell you what they did.

1 I don't have firsthand knowledge of Washington, so if  
2 you want me to do that, I can.

3 Q. Do you know why the company proposed the  
4 change to a five-line-or-more definition for complex  
5 lines?

6 A. I know what it says in the advice letter.  
7 Again, I was not here and not doing what I'm doing now  
8 when this was done. I do not have firsthand  
9 knowledge.

10 Q. Going back to your testimony, on page 13,  
11 lines 7 to 10, you state, and this is in response to a  
12 question of why does U S West recommend this  
13 restructure, you state, "The current structure and  
14 pricing actually discourages smaller businesses from  
15 growing and adding lines to their telephone system."  
16 Do you see that?

17 A. Yes, I do.

18 Q. When did the company first become aware of  
19 this problem that you refer to?

20 A. I believe we tried to correct this anomaly  
21 before, but again I'm not sure, but obviously logic  
22 tells me we've probably been aware of it for some  
23 time. It's such an onerous form of pricing where you  
24 actually discourage customers from buying additional  
25 lines. You buy that fifth line and you have to

1 increase the price of your first four. I found the  
2 pricing amazing and completely against any kind of  
3 marketing pricing that I've ever seen in my life, and  
4 obviously I can't tell you when we knew this was bad,  
5 but because of the structure we have here in our  
6 alternative form of regulation, we have to have an  
7 offset in order to correct this problem. That's why  
8 we filed this in August of last year when we had the  
9 term loops and the directory assistance.

10 Q. Did the company ever indicate to the  
11 Commission prior to 1993 that it considered the  
12 complex line rate structure to be either a problem or  
13 a pricing anomaly?

14 A. I can't answer that.

15 Q. You don't know?

16 A. I don't know.

17 Q. On page 13, going down to line 17 of your  
18 testimony, you indicate, "This structure" -- referring  
19 to the current structure -- "is punitive in nature."  
20 Do you see that, that line?

21 A. Yes.

22 Q. Do you remember, do you consider the  
23 structure to be punitive even if the customer is using  
24 five or more lines to operate a PBX or a key system?

25 A. Yes, I do. I think it's punitive in all

1 aspects of it. Any time -- I mean, I would hope that  
2 the state of Washington wants to promote economic  
3 growth. What our pricing structure here does is  
4 totally punitive. If I want to grow, I'm a small  
5 business owner and I want to grow, I am penalized by  
6 adding that fifth line. That makes absolutely no  
7 sense, it is punitive, and it's very uneconomic and  
8 does not promote small businesses' expansion.

9 Q. So then does the company no longer believe  
10 in the value of service pricing concept?

11 A. I would need you to define value service.  
12 If you're talking about the old monopolistic type of  
13 pricing philosophy where we priced business, toll,  
14 access services extraordinarily high in order to make  
15 universal service available, is that how you're  
16 defining value service? That's how traditionally it  
17 is used, anyway.

18 Q. Would you agree that a line is more  
19 valuable when it serves a PBX system rather than a  
20 single phone?

21 A. No, I would not. The most important line  
22 to a business is that first line. It has the listing  
23 included in part of it and that's how customers access  
24 them. The only difference between a multiline when  
25 you get above some arbitrary numbers, there's a slight

1 increase in the cost of usage. That cost is minimal,  
2 and I cannot agree that additional lines necessarily  
3 mean more value. Your highest value business  
4 customers have said is the listing and that comes with  
5 the first line.

6 MR. TRAUTMAN: Staff has no further  
7 questions.

8 JUDGE CANFIELD: This would be an  
9 appropriate time to take a morning break so let's take  
10 a 10-minute break and come back at 11:10.

11 (Recess.)

12 JUDGE CANFIELD: We're back on the record  
13 after our morning break and Mr. Trautman had just  
14 concluded his questioning of Ms. Owen, and next in  
15 line, I guess Mr. Trotter has asked to go last maybe  
16 to cut out of some of his questioning. If that's the  
17 intent it's all welcome, so we'll just go down the line  
18 and come back to Mr. Trotter. Ms. Frickleton.

19 MS. FRICKLETON: I have no questions.

20 JUDGE CANFIELD: Thank you. I believe  
21 Mr. Nettleton indicated he had no questions and what  
22 questions he had would be asked by another  
23 individual; is that correct?

24 MR. NETTLETON: By Mr. Kahn from Bellevue  
25 will be handling for this witness.

1 JUDGE CANFIELD: Mr. Kahn.

2 MR. KAHN: Thank you.

3

4 CROSS-EXAMINATION

5 BY MR. KAHN:

6 Q. Ms. Owen, good morning.

7 A. Good morning.

8 Q. You were designated as the U S West general  
9 policy witness; is that correct?

10 A. That is correct.

11 Q. Directing your attention to page 3, line 10  
12 of your testimony, it's your testimony that "in  
13 considering pricing for U S West's services a  
14 consideration is competition with available  
15 alternatives for similar service"; is that accurate?

16 A. Yeah, or substitutable services.

17 Q. Directing your attention to your testimony  
18 on page 9, line 23. You refer to the downtown Seattle  
19 market. Is it correct that part of the justification  
20 for repricing the business services in the Seattle  
21 market is the perceived competition within the Seattle  
22 market for similar services?

23 A. The pricing that we're recommending today  
24 is statewide. It is an incremental step that's to  
25 help all customers not have the punitive pricing

1 structure that we have today with the simple/complex  
2 definition, and then the second piece of that is to  
3 reduce the complex rate, and the complex rate reduction  
4 is more in response to competition but it's only an  
5 incremental step, and what I'm really talking about  
6 here, I'm talking really more about our current rate  
7 group structure and it really is totally backwards from  
8 where it should be, and I'm talking more here about the  
9 rate group structure when I'm referencing Seattle.

10 Q. Without asking about that specific portion  
11 of the testimony, you would agree that in the Seattle  
12 area, in your opinion, there is competition for the  
13 various business services, complex-type lines?

14 A. Yes.

15 Q. Switching now to the terminal loop service  
16 for which you're also recommending price adjustments.  
17 In a city such as Moses Lake, what would the  
18 competition be for a term loop between city hall and an  
19 outlying facility within the town of Moses Lake?

20 A. You really need to address that with  
21 Mr. Rees. I believe he talks about substitutes and  
22 competition for term loops specifically.

23 Q. Are you aware yourself of any competition  
24 that would be present for that term loop service in a  
25 city such as Moses Lake?



1           A.     To my knowledge, I don't have that  
2 knowledge.

3           Q.     If I asked you the same question with  
4 respect to competition for term loops in, say, Yakima  
5 or Walla Walla, are you aware of any alternatives to  
6 term loop service in those cities at this time?

7           A.     I am not necessarily aware, but term loops,  
8 the filing for term loops -- if you go back further in  
9 my testimony, the reason for the term loops is not  
10 competition. It's -- they're below cost, and the issue  
11 becomes should you continue to subsidize a service  
12 below cost when the service is generally used by larger  
13 businesses. Why should a 1FB five-line customer  
14 subsidize that? The issue of term loops is not  
15 competition; the issue with term loops is cost. So we  
16 may be mixing apples and oranges in your question.

17          Q.     Would you agree with me, then, that there  
18 is no competition for the term loops service in either  
19 the city of Bellevue or the other cities that I've  
20 referred to?

21          A.     No. I would not agree with that, but I  
22 think Mr. Rees could give you more details.

23          Q.     As far as your policy testimony, you're not  
24 basing that on any competition within the term loop  
25 area; is that correct?

1           A.     Yes. My only reference to term loops at  
2 all is the fact that all services should cover their  
3 long-run incremental costs. Term loops do not,  
4 therefore their price should be increased.

5           Q.     In looking at the appropriate pricing for  
6 term loop service, it's correct that an appropriate  
7 price would be reflective of the product family costs,  
8 the overhead, and a reasonable profit for the service?

9           A.     Generally. I mean, obviously, there are  
10 going to be differences and the specific term loop  
11 pricing, again, you need to talk to Mr. Rees because  
12 each product, I can tell you what the price floor is  
13 and then how we should price on top of that. Mr. Rees  
14 would be better qualified to answer for his specific  
15 product.

16          Q.     From a general policy standpoint, what did  
17 you consider in setting the appropriate price for term  
18 loops?

19          A.     I didn't consider anything because I don't  
20 -- term loops is not my product. I'm trying to  
21 redirect you to Mr. Rees because, as I said earlier,  
22 when Mr. Trautman and I were talking, each product  
23 manager looks at how best to price their product. With  
24 term loops our reference is strictly in this case from  
25 my perspective as the overall pricing witness that it

1 needs to be brought above its cost floor. Now, how the  
2 pricing was then developed once that base was  
3 established, that's why Mr. Rees needs to talk to you  
4 specifically for that product.

5 Q. Is there a general policy within U S West as  
6 to which factors are considered in setting the  
7 appropriate price?

8 A. Generally, yes. And you really go back to,  
9 if I may reference my testimony beginning on page line  
10 3. We really do look at the three pieces. We look at  
11 the relationship of that product to competitive  
12 alternatives. We look at the customers' perceived  
13 value, but before either of those occur, No. 3, which  
14 is on line page 4, line 10, "prices should be set at  
15 or above the appropriate price floor." And so we  
16 really can't go to 1 and 2 until that price floor has  
17 been met. Then the market conditions, the  
18 competition, the customer's perceived value comes into  
19 play.

20 Q. You would agree that if there was evidence  
21 demonstrating that current term loop pricing was at  
22 the long-range incremental cost and at the appropriate  
23 price floor then in fact the current pricing would be  
24 appropriate based on U S West's general policies for  
25 pricing?

1           A.     No. The price floor does not necessarily  
2 equate to the price. It's the bottom rung, if you  
3 will, of the ladder of prices. It means you can get  
4 below that price but you could go anywhere in a range  
5 above that price once you looked at the other factors  
6 that enter into this, competition, customer's value,  
7 corporate overheads. All of those would be factored  
8 into that pricing decision. The price floor is truly  
9 that. It is the floor of the pricing.

10          Q.     If the evidence demonstrated that the  
11 current term loop price was above the price floor and  
12 did consider costs overhead and profit, you would  
13 agree that the current term loop pricing would in fact  
14 be correct?

15          A.     No. Cost overhead and profit are something  
16 that you would look at, but you still have to look at  
17 competition and what customers are willing to pay and  
18 does it meet their needs and at what price will it meet  
19 their needs. Then you're talking market research. So  
20 it's -- pricing is -- I've heard it referred to as an  
21 art, not a science, so you have to factor all of those  
22 into the price.

23          Q.     Ms. Owen, directing your attention to your  
24 testimony on page 6, line 12, your testimony is that  
25 there was an extra contribution that was used to

1 subsidize basic residential service. Is it true that  
2 U S West currently has rates for some types of services  
3 that are set below the actual cost of service?

4 A. Yes.

5 Q. Can you identify what those areas of  
6 service would be.

7 A. I could tell you the ones that I'm familiar  
8 with. The two that we have in this filing are  
9 directory assistance, which is below its long-run  
10 incremental cost, and term loops. And then in  
11 addition the one that is referenced on that first  
12 paragraph in line 6 is residential basic exchange  
13 service. It is also below its cost floor. Those are  
14 the three I'm most familiar with.

15 Q. Are you aware of any other services whether  
16 you've worked on them or not that are currently priced  
17 below the cost of service by U S West?

18 A. I don't think so. Those are the three I'm  
19 familiar with. I don't remember others. I mean there  
20 may be, but if there are I can't think of them right  
21 now.

22 Q. In setting the cost of residential service  
23 below the actual cost of service, are there certain  
24 policy considerations that U S West applied in doing  
25 that?

1                   MR. SHAW: Object to the form of the  
2 question. I believe counsel misstated himself. He  
3 said the company setting the cost below the cost. Did  
4 he mean the price below the cost?

5                   JUDGE CANFIELD: Maybe get that clarified.

6                   MR. KAHN: Sure.

7           Q.       What I meant to ask was, in setting the  
8 price of residential service below the cost of that  
9 service, did U S West take into consideration any  
10 policies in making that decision?

11           A.       It is my belief that that policy was not U S  
12 West's but was the Commission and not just this  
13 commission but both Commissions in that when, gosh, ten  
14 years ago one of our primary goals, as was U S West,  
15 was to establish universal service, universal service  
16 being the old house in every home, and the Commission  
17 adopted that as a policy goal, and as a part of that in  
18 order to encourage residential customers to subscribe  
19 to telephone service, they chose to price it below its  
20 long-run incremental cost and to do so obviously in  
21 order to meet a revenue requirement then you have to  
22 price other services well above their cost. Did I  
23 answer your question?

24           Q.       I believe so. It's your testimony, then,  
25 that it was a Commission policy rather than a policy

1 of U S West?

2 A. It was Commission policy but at the time  
3 we certainly agreed with it, and we still agree with  
4 the need to have universal service for residential  
5 customers. What we think is going to be changing over  
6 time is it may be more of a targeted subsidy. It may  
7 not be the Bill Gates of the world having his  
8 telephone subsidized. It may be my mother on Social  
9 Security limited income having hers subsidized, but  
10 yeah.

11 Q. What is the basis for U S West's belief that  
12 there are continued policy reasons for subsidized  
13 services in certain areas?

14 A. The only one that I am aware of that we  
15 believe should be subsidized would be residential low  
16 income needy, however defined. It varies by state.  
17 For example, it might be just those customers that are  
18 eligible under the telephone assistance program or  
19 Link Up America program, but that in my belief is  
20 about the only one that should receive subsidy.  
21 However you want to define that group of people.

22 Q. You mentioned that directory assistance is  
23 currently priced below its actual cost. Did U S West  
24 take into account any policy considerations at the time  
25 that those rates were initially set below the cost of

1 service?

2 A. I can't tell you. That was probably before  
3 my time. I think the rates in Washington have been in  
4 effect for many years, and I don't know what -- I  
5 can't tell you what the policy was at that time.

6 Q. You testified that the term loop service  
7 is, in your opinion, priced below its actual cost.  
8 Did U S West take into account any policy  
9 considerations at the time that those term loop prices  
10 were initially set?

11 A. Again, my answer would have to be the same  
12 as it was for the directory assistance. I don't know.  
13 That was before my time.

14 Q. Do you know if the Commission took any  
15 policy considerations into effect in pricing the term  
16 loops at the time rates were originally set?

17 A. I would assume they did. I know that we  
18 have filed before to have term loop rates increased  
19 and the Commission ruled on those filings, so I assume  
20 the Commission had some policy in mind. I don't think  
21 we agree with that policy. I don't understand why a  
22 large business who is the primary user of term loops  
23 should have that service subsidized. I mean, it is  
24 beyond me why we should continue that kind of  
25 subsidization.



1 Q. In its filing to increase the term loop  
2 rates, did U S West consider any public policy issues  
3 -- let me see if I can rephrase that.

4 In its filing to increase term loop rates,  
5 did U S West consider the impact on public agencies as  
6 a result of the increase in rates?

7 A. You would have to ask Mr. Rees that  
8 specifically. Philosophically I think I've already  
9 stated our position that generally that is not an  
10 appropriate area to have subsidies exist in. The only  
11 one that we believe is appropriate to have subsidies is  
12 for the residential market. Mr. Rees can give you more  
13 specificity around how they arrived at those rates and  
14 what they looked at.

15 Q. As the general policy witness for U S West,  
16 are there any policies you're aware of that affect how  
17 U S West prices services for governmental or nonprofit  
18 agencies?

19 A. Not specifically. Somewhere in the back of  
20 my mind, I believe there are occasions when we have  
21 contracts with governmental agencies, but it was my  
22 recollection is that generally those contracts are  
23 above their cost. I'm not aware of where we  
24 intentionally priced services below our cost,  
25 governmental agencies, although there may be some I'm

1 not aware of.

2 Q. Does the Commission have any particular  
3 policies which it applies to the pricing of services  
4 for public governmental agencies that have been  
5 applied to previous U S West pricing requests?

6 A. Not that I am aware of.

7 Q. Does the Commission look at public policy  
8 issues in setting special tariffs for schools or  
9 school districts?

10 A. I don't know. You would have to ask the  
11 Commission that.

12 Q. Could you define what is meant by "rate  
13 shock" in pricing increases for services?

14 A. Rate shock would be where the increase was  
15 of such magnitude that it shocked the customers, I  
16 guess you would say. I mean, I don't know how you  
17 define it. At what point in time they may decide not  
18 to use the service possibly. I've actually never had  
19 to define it before so I'm fumbling here.

20 Q. Is rate shock something that U S West takes  
21 into account in increasing its rates for services?

22 A. I would say definitely on the residential  
23 user side because it can be such a larger portion of  
24 their total disposable income, and I believe that like  
25 some of the changes long term that I talk about in my

1 testimony that we would like to make with business  
2 basic exchange -- of course that's not rate shock,  
3 that's almost the inverse of rate shock -- but if you  
4 look at what we want to do with rate groups where we  
5 want to flip flop them around to reflect the costs  
6 better, we probably try to do that in a gradual  
7 manner, but again, the biggest impact on that is the  
8 residential customer not the business customer.

9 Q. Does U S West consider rate shock as an  
10 appropriate consideration in increases for governmental  
11 agencies?

12 A. To the extent that we understand that the  
13 governmental agencies have a budgeting problem. You  
14 know, you budget a certain time of year and so we have  
15 tried quite often, I know, to work with governmental  
16 agencies to have the effect at a certain date in time  
17 to help you in your budgeting process. Yes, we have  
18 done that. Part of the frustration would be when we  
19 have asked to have term loops increased before, it  
20 would have been more gradual, and I can't speak to  
21 what the rates are specifically in this case. I don't  
22 know if they're big or if they're small, but at some  
23 point in time you've got to increase them to cover the  
24 costs, so if in one person's estimation that's rate  
25 shock, you have to understand that we've tried to do

1 this before and not been successful. So the long  
2 answer to your question, yes, we do try because we  
3 know you have a budgeting consideration and we try to  
4 work with that.

5 Q. Looking at the residential arena, if there  
6 was an overnight increase in residential phone rates  
7 of 300 percent, in your opinion, would that be  
8 something appropriately characterized as rate shock?

9 A. Probably, yes.

10 Q. It would certainly be true that the same  
11 rate shock factor would apply if the rates of a  
12 governmental agency increased overnight 300 percent?

13 A. I think it's just like on the residential  
14 one. You have to look at it in aggregate. So if I'm  
15 a residential customer and my only service is a 1FR  
16 line and that increases 300 percent, that would be  
17 rate shock. If I'm a business customer and I have  
18 numerous lines, I have numerous features and someone  
19 is increasing one feature 300 percent in aggregate it  
20 may not be rate shock. It would depend on each  
21 customer account and what other services they're  
22 providing -- or receiving.

23 Q. If the rates for term loop service went  
24 overnight from \$70,000 a year to \$235,000 a year,  
25 would that in your opinion be appropriately classified

1 as rate shock?

2 MR. SHAW: Object to the form of the  
3 question. Insufficient reference to -- is that per a  
4 hypothetical customer or the gross revenue effect of  
5 the filing? I think the question is misleading as  
6 stated.

7 MR. KAHN: Still a hypothetical customer,  
8 Your Honor.

9 JUDGE CANFIELD: I will allow it as a  
10 hypothetical.

11 A. Let me just clarify. Are you saying that's  
12 their total monthly bill or annual bill is \$70,000  
13 today and it would go to \$225,000 or some such number  
14 total, your total bill or are you saying one element  
15 of their bill?

16 Q. It would be the total bill.

17 A. If that was the total bill, I would have to  
18 say that's significant.

19 Q. Could you define the term "discretionary  
20 service" as used in the testimony today.

21 A. Yes. We actually had some data requests on  
22 that, too, so if you could bear with me a minute, let  
23 me find one that had that definition for you. I'm  
24 going to just use one of the interrogatories.

25 "Discretionary service is a service which a customer

1 can choose or choose not to purchase." Examples I  
2 gave were directory assistance and term loops we would  
3 view as discretionary services and a flat business  
4 line as a nondiscretionary service since you need to  
5 have a line in order to access the network.

6 Q. On what basis do you classify a term loop  
7 as a discretionary service?

8 A. We would classify term loop as a  
9 discretionary service because, number one, there are  
10 other alternatives available, and again I would  
11 reference you to Mr. Rees on that, and there are other  
12 ways of provisioning the service. You can have a 1FB  
13 instead of a term loop if you needed to, if you didn't  
14 care if it went through your PBX, for example. So  
15 there are alternatives available or you may choose to  
16 not provision at a specific location. But I have to  
17 tell you, term loops is not my area of expertise. I  
18 would probably defer to Mr. Rees for more meat around  
19 that answer.

20 Q. All right. When you say decision could be  
21 made not to provision in a particular location, does  
22 that mean that the decision would be not to provide  
23 phone service to a particular location by eliminating  
24 that term loop?

25 A. It could be. I guess I was more thinking

1 of providing it a different way.

2 Q. If in fact there was no other way of  
3 providing that same service previously provided by the  
4 term loop, it would then become a nondiscretionary  
5 service; is that correct?

6 A. That's possible.

7 Q. The overall filing by U S West has the  
8 effect of reducing complex business line rates while  
9 increasing directory assistance and term loop rates; is  
10 that correct?

11 A. Yes.

12 Q. It's your testimony that the financial  
13 impact on U S West is either revenue neutral or close  
14 to it?

15 A. That is correct. And I think I have a  
16 specification in my testimony.

17 Q. However, with respect to an individual  
18 customer, again taking a hypothetical city as an  
19 example, the revenue impact on the city would not  
20 necessarily be neutral. It would be dependent on  
21 whether or not there was an equivalent offset between  
22 the increase -- I'm sorry -- increase in term loop  
23 rates and the decrease in complex business lines?

24 A. That is correct. I mean, all businesses,  
25 plus the simple/complex restructure. I mean, both of

1 them together, that would be true.

2 Q. If a governmental agency had a large number  
3 of term loops and a very small number or noncomplex  
4 business lines, the revenue impact would not be  
5 neutral. It would in fact be an increase in the cost  
6 of service; is that correct?

7 MR. SHAW: Object to the form of the  
8 question because it's impossible as stated for a  
9 customer to have no access lines to the network and  
10 have the term loops work, so I'm concerned that the  
11 question might be misleading.

12 MR. KAHN: I will rephrase.

13 MR. BUTLER: Excuse me, I disagree with  
14 that characterization. It's entirely possible for a  
15 customer to take a Centrex Plus service or CORECOM and  
16 have network access provided as part of that and not by  
17 complex business service.

18 JUDGE CANFIELD: Mr. Kahn was going to  
19 restate his question in any event, and I will allow  
20 him to do so.

21 Q. Assuming that you would have a large number  
22 of term loop lines and a very small number -- change  
23 the hypothetical so that you do not have no complex  
24 business lines but perhaps a very small number. It  
25 would be correct, then, that the impact on the city



1 would be for a net increase in cost of service?

2 A. It certainly could be. I'm not familiar  
3 enough with the changes in the various term loop  
4 rates. I mean, it may depend on what specific service  
5 you take in term loops. I think there's several  
6 different prices, but given that my knowledge on term  
7 loops is small I would agree with what your comments  
8 were.

9 MR. KAHN: Ms. Owen, thank you very much.  
10 I have nothing further.

11 JUDGE CANFIELD: Ms. Marcus.

12

13 CROSS-EXAMINATION

14 BY MS. MARCUS:

15 Q. Good morning.

16 A. Good morning.

17 Q. In response to one of Mr. Kahn's questions  
18 you stated that the primary user of term loops are  
19 large businesses. Could you tell me what you mean by  
20 large businesses?

21 A. I would defer to Mr. Rees. I don't know who  
22 the customers are. Generally, I would say those people  
23 above more than five lines. I mean, most of the small  
24 business people that I've come in contact with do not  
25 have term loops.

1 Q. When you're talking about large businesses,  
2 are you talking about private industry or are you  
3 talking about governmental entities?

4 A. Neither. I would characterize it as  
5 something above five lines. I'm just saying versus  
6 small business or simple as we've defined it here  
7 generally are not the ones that have term loops.

8 Q. So when you just used the term large  
9 business in your testimony you're talking about the  
10 number of lines the customer has as opposed to whether  
11 it's a private industry or a governmental entity?

12 A. Correct. I did not try to differentiate  
13 between private industry and governmental.

14 Q. If I wanted to know who the primary users  
15 are distinguishing between private industry and  
16 governmental industry, is that Mr. Rees I should be  
17 asking?

18 A. Yes, because I don't know.

19 Q. Now, on page 4 of your testimony you talk  
20 about prices should be set at or above the appropriate  
21 price floor; is that correct?

22 A. That's right.

23 Q. And then you talk about the appropriate  
24 price floor as the long-run incremental cost?

25 A. Yes.

1 Q. Are you the appropriate witness to ask or  
2 do you know what factors go into determining what is  
3 the long-run incremental cost?

4 A. No. Ms. Santos-Rach can give you all of  
5 the piece parts of all of the different services and  
6 what elements are in there.

7 Q. So when you're talking about the  
8 appropriate price floor being long-run incremental  
9 costs you're talking about in a theoretical sense as  
10 opposed to the long-run incremental costs should be  
11 set using average fill versus objective fill?

12 A. I'm not sure I understand your question. I  
13 mean, understanding I'm not a cost person, and I don't  
14 know that I know -- as a product manager, can I answer  
15 it that way?

16 Q. Sure.

17 A. As a product manager, I would go to  
18 Ms. Santos-Rach and say what is my long-run  
19 incremental cost, therefore what's my cost floor,  
20 price floor, and then I use the other pieces to make  
21 the decision on how much I want to price the various  
22 services at, but I don't know what you mean by the  
23 objective fill and the other.

24 Q. So in your testimony when you state the  
25 terminal loops are below the long-run incremental

1 costs, you are stating that not from personal knowledge  
2 but from information given to you by somebody else?

3 A. Right. I mean, in that we have a group  
4 that Ms. Santos-Rach represents that does cost studies  
5 and believe me, it is -- it's fairly detailed and you  
6 wouldn't want me doing them.

7 Q. Now, on page 11 of your testimony when  
8 you're talking about the restructuring of your complex  
9 and business lines, you talk about that the first line  
10 should be at a higher rate; is that correct?

11 A. Right.

12 Q. And then you state that as customers get  
13 larger and use more lines that the increase in rates  
14 should be less, volume discounts?

15 A. Volume discount, that's correct.

16 Q. Do you have data request DIS 03-030?

17 A. 03-030?

18 Q. Right.

19 A. Yes.

20 Q. Now, attached to that data request you gave  
21 a table of the effect of the price restructure on a  
22 business depending on the number of business lines  
23 they have?

24 A. Yes.

25 Q. Is it accurate to say that a customer with

1 just one line will not get any reduction in their price  
2 based on your filing?

3 A. Yes.

4 Q. And is it true that the larger business  
5 customers, let's say 25 to 30 lines, do not get the  
6 largest decrease from your tariff filings?

7 A. On a percentage basis, that will be  
8 correct, because obviously the more you buy at the  
9 complex rate it lowers your percent benefit that  
10 you're getting from the reduction of your first four  
11 lines, so just mathematically that would be correct.

12 Q. And the percentage reduction that would be  
13 the largest is for the medium size?

14 A. Yes. That would be again because of the  
15 function of the total revenue involved.

16 Q. Now, in the original filing package, the  
17 stimulation number was included; is that correct?

18 A. That is correct.

19 Q. And in your testimony you did not include  
20 the stimulation number; is that correct?

21 A. That is correct. We didn't have time to  
22 rerun them. We had a reduction in I think it was  
23 January of this year in the business rates and did not  
24 rerun the stimulation numbers, but there is some  
25 stimulation that should be reflected.

1 Q. And you would agree that -- well, you just  
2 said that there is some stimulation that should be  
3 reflected, so would you be able to rerun those numbers  
4 now?

5 A. I'm not sure how long it takes. We  
6 certainly would rerun them. I don't know if we can --  
7 how soon we could rerun them. I've been told it takes  
8 two or three weeks but I certainly am not adverse to  
9 having them rerun.

10 MS. MARCUS: I would like to make a record  
11 requisition that the numbers be rerun reflecting the  
12 stimulation numbers.

13 MR. SHAW: Your Honor, I want to make sure  
14 of what's being requested of us. The stimulation  
15 numbers in the original filing package to be rerun to  
16 reflect the rate reductions ordered by the  
17 Commission's last order on sharing.

18 MS. MARCUS: Correct.

19 MR. SHAW: Is that correct?

20 MS. MARCUS: That is correct.

21 JUDGE CANFIELD: And that could be  
22 accomplished, Mr. Shaw?

23 MR. SHAW: Well, I have no idea. This is  
24 not the best witness on how long it will take us.  
25 Anything is possible given enough resources so I

1 presume we can do it. If I find out that we can't I  
2 will bring it up to you.

3 JUDGE CANFIELD: If there's any further  
4 discussion needed on that to clarify that you can  
5 certainly discuss that among yourselves off the record  
6 as well. As clarified that will be record requisition  
7 No. 1.

8 MR. TROTTER: Excuse me. Didn't the staff  
9 have a record requisition?

10 JUDGE CANFIELD: No number was assigned to  
11 that. Do you think one should be assigned just for  
12 clarity? I thought it was going to be handled  
13 informally.

14 MR. TROTTER: I thought the working out was  
15 going to be handled informally. But whatever. I just  
16 made a note of it.

17 JUDGE CANFIELD: There was one request that  
18 I can assign one to it and have it worked out. That  
19 might make the record clear.

20 MR. SHAW: Well, Your Honor, I don't think  
21 we have a request yet. I will be more than glad to  
22 work with Mr. Trautman to get it narrowed down. If we  
23 can come to an agreement we can give it to him. I  
24 don't think it rises to the dignity of a record  
25 requisition until we get it better defined.

1                   MR. TROTTER: Your Honor, we were relying  
2 on getting a copy of it and I thought the record  
3 requisition was defined. It was that -- I think the  
4 complaint was that there had to be discussions on  
5 whether there had to be a complete locker search or  
6 whether the abbreviated locker search would work, and  
7 that was our recollection, but I would just recommend  
8 it be assigned a number and let the parties work it  
9 out.

10                   JUDGE CANFIELD: There was some discussion  
11 on the record about record requisition on that and I  
12 will go ahead and assign a number to that earlier.  
13 Mr. Trautman request as No. 1 and that was going to be  
14 worked out between the parties and I will let that  
15 stand as No. 1 and this one that we've just referred  
16 to from Ms. Marcus as record requisition No. 2 then.

17                   (Record requisition 2.)

18                   MR. SHAW: Your Honor, I want the record to  
19 reflect that I have a continuing objection to any  
20 granting of the requests for record requisition No. 1  
21 when it's not even clear what was being asked. I took  
22 Your Honor's earlier ruling as it was far too vague to  
23 be granted and it still hasn't been defined.

24                   MR. TRAUTMAN: Again, Your Honor, the  
25 vagueness stems from the vagueness of the policy which



1 U S West is relying upon. We made a clear request. We  
2 said if there is a policy that's been distilled into a  
3 documentary form, we would like to get a copy of it.  
4 The witness indicated she didn't know whether there was  
5 one or if she had seen one. The vagueness doesn't stem  
6 from our side. It stems from U S West.

7 JUDGE CANFIELD: In any event those types  
8 of matters were going to be worked out off the record  
9 rather than waste hearing time on that, so I will  
10 assign a number to it as No. 1 and as was earlier  
11 indicated the parties will discuss that further and  
12 work that out and this most recent one is record  
13 requisition No. 2. Ms. Marcus.

14 MS. MARCUS: I have nothing further.

15 JUDGE CANFIELD: This would be an  
16 appropriate time to break as far as I'm concerned. We  
17 can go off the record to discuss that.

18 (Discussion off the record.)

19 JUDGE CANFIELD: We'll take our lunch  
20 break. It's almost noon so we'll come back at  
21 1:15.

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

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AFTERNOON SESSION

1:15 p.m.

JUDGE CANFIELD: We're back on the record after our lunch break. Just prior to the break, Ms. Marcus had concluded her questioning of Ms. Owen and Mr. Butler was just about ready to begin, so why don't we pick up there.

CROSS-EXAMINATION

BY MR. BUTLER:

Q. In response to a question from Mr. Kahn, I believe you testified that there was a competition for complex business service in the Seattle area. By stating that, did you intend to say that in your opinion there presently exists competition for complex business service in Seattle or did you intend to say that competition is legally and technically possible and can be expected shortly?

A. Probably both, in that obviously the latter is true, that it's technically possible now. If you look at the resale market, I would say we do have competition now, but then the other piece of it is there's obviously competition looming. You know, MCI has come out and said that Seattle is one of their primary targets. So it's really all of those. The

1 competition today is primarily in the resale for  
2 business basic.

3 Q. Could I direct your attention to your  
4 testimony at page 7 of line 10. There you refer to  
5 the traditional method of pricing that makes it  
6 attractive for competitors to enter markets and target  
7 services in areas where prices are set well above  
8 economic cost of providing service. With that  
9 testimony in mind, would you agree that it would be  
10 appropriate for U S West to move its rates toward  
11 economic cost of providing service in advance of the  
12 arrival of competition in order to discourage  
13 inefficient and uneconomic competitors?

14 A. Yes, I would.

15 Q. With respect to terminal loop service, can  
16 you tell me what the price elasticity is of those  
17 services?

18 A. No. Ask Mr. Rees if you would when he comes  
19 up.

20 Q. I'm sorry?

21 A. Ask Mr. Rees when he comes up. I don't know  
22 specific elasticities for term loops.

23 Q. Do you know whether they're price elastic or  
24 price inelastic?

25 A. I don't because I'm not totally familiar

1 with what alternatives are available to it, and that  
2 makes a big difference in the elasticity.

3 Q. And Mr. Rees would be one to answer that?

4 A. Yes, he would.

5 Q. If a service is priced inelastic, would you  
6 agree that that means that you could increase revenues  
7 by increasing prices?

8 A. Generally that's true.

9 Q. And if you could increase revenues by  
10 increasing prices, wouldn't that be an indication that  
11 U S West had market power over that service?

12 A. It certainly could. That would be one  
13 aspect of it. It could also mean that we still could  
14 be below other people's prices. It could be either of  
15 those.

16 Q. Would you agree that if a service is price  
17 inelastic that is an accepted indicator of the  
18 existence of market power? In other words, that you  
19 could not have market power if a service were price  
20 elastic?

21 A. Generally true. I'm sure there are some  
22 exceptions, but I think that's generally a fair  
23 characterization.

24 Q. If a service were price inelastic, and if  
25 U S West had market power over it, would you agree that

1 that would be an indication that there are no  
2 comparable alternatives available for that service?

3 A. Again, I think it depends on the product  
4 and how you define it versus how functionally some  
5 other product could replace it. If there was  
6 absolutely no substitute, I would agree, but if there  
7 were substitutes that the customers may choose not to  
8 use for whatever, I'm not sure that that would hold  
9 true.

10 Q. If a service were price inelastic and you  
11 could increase the price and not have a reduction in  
12 revenues, doesn't the fact that you would not have a  
13 reduction in revenues indicate that the customers  
14 don't have a readily available alternative to which  
15 they could turn?

16 A. I think that's similar to the one you asked  
17 earlier, and the answer is yes, that's probably true,  
18 but then the two other factors would be do they know  
19 what other services are available as a substitute and  
20 the ones that are available, are they higher priced.

21 Q. I would like you to turn to your discussion  
22 about the objectives for prices for business service,  
23 business exchange service in the future. Am I correct  
24 that it is U S West's long term objective to have a  
25 pricing structure that does not contain a distinction

1 between simple and complex business service?

2 A. Over time that's correct.

3 Q. Can you tell me how many U S West states  
4 have today the distinction between simple and complex  
5 business service?

6 A. Actually, the way it's structured here in  
7 Washington, we don't have any the same way -- Oregon  
8 has something similar but none of the other -- the  
9 remaining 12 states they're either -- it's not  
10 structured the same. You either take one or the other.  
11 They don't have a stair step, you know, where you have  
12 the first four where you pay one rate and the next one  
13 is a higher rate. You pay either PBX trunk rate or one  
14 of -- or flat business line rate. So this structure  
15 here is very unique.

16 Q. In the states where you have a choice  
17 between a 1FB and a PBX trunk rate or a key system  
18 rate, do you have any states where you maintain three  
19 steps?

20 A. No. We don't have -- to my knowledge  
21 there's no place that has a key rate anymore.

22 Q. Is the distinction in those states  
23 dependent upon the customer premises equipment that  
24 the customer employs? How do they decide whether to  
25 take a 1FB or PBX?

1           A.     What the customer asks for, and we have no  
2 way of policing it.

3           Q.     You indicated that Oregon has a different  
4 but somewhat similar structure. Can you tell me the  
5 difference between a simple and complex service in  
6 Oregon.

7           A.     I can give you my best shot at it. I  
8 haven't looked at Oregon's in some time, but I believe  
9 they have a structure that says the first two lines,  
10 or something like that, are simple and then all the  
11 other ones are complex, but that would be subject to  
12 check. I'm not positive.

13          Q.     And your proposal here is that the first  
14 four lines be simple and then beginning with the fifth  
15 line be complex?

16          A.     That is correct.

17          Q.     I have one other question. Refer to page 5,  
18 line 14, please. There you state the product strategy  
19 is also key to setting a pricing objective and in  
20 setting a final price. Can you tell me what the  
21 product strategy is for terminal loop service.

22          A.     No. You need to ask Mr. Rees that question.

23          Q.     Mr. Rees would answer it?

24          A.     Yes.

25          Q.     Thank you.

1 MR. BUTLER: I have no further questions.

2 JUDGE CANFIELD: Mr. Kopta.

3

4 CROSS-EXAMINATION

5 BY MR. KOPTA:

6 Q. Good afternoon, Ms. Owen. My name is Greg  
7 Kopta and I'm representing Digital Direct of Seattle  
8 and TCG of Seattle. To your knowledge, are these the  
9 first filings in Washington in which you or someone  
10 testifying on behalf of U S West has discussed this  
11 pricing philosophy that U S West is promoting here in  
12 this docket?

13 A. On a formal basis, I believe that's  
14 correct. I think informally discussions have been  
15 held with staff, but on a formal basis I believe that  
16 very well could be true.

17 Q. In response to Mr. Trautman's question, you  
18 said that you do not believe that U S West is a  
19 monopoly provider any longer. Would you define what  
20 you mean by monopoly provider?

21 A. My reference is the fact that with the  
22 Commission that the Supreme Court ruling and then  
23 coupled with the Commission's recent decision to allow  
24 ELI to provide intraexchange switched access that  
25 we in essence do not have a monopoly in Washington any



1 longer, so there's nothing that guarantees us to be  
2 the sole provider of basic exchange service.

3 Q. Do you believe that U S West has a monopoly  
4 in fact on provision of services, specifically complex  
5 business line?

6 A. Not entirely. We talked a little bit a  
7 minute ago about resellers have been in Washington for  
8 some time, and they certainly can provide the service,  
9 and obviously when you look at ELI, what MCI has said  
10 that they're coming into the local market, I suspect  
11 imminently that expansion will expand from just  
12 resellers to other providers as well.

13 Q. So you would characterize monopoly then as  
14 a person or a company that can provide the service  
15 without any competition whatsoever?

16 A. Yes. I think so.

17 Q. You also made a distinction between  
18 competition in general and effective competition. How  
19 would you distinguish between those two terms?

20 A. Effective competition, I would say, means  
21 that there's competition in all aspects of your  
22 business today. Competition, when you look at it more  
23 generically, means that you know competition is either  
24 there, as an effective, or is imminent as we see it  
25 occurring today, and at any time you're looking at

1 your pricing and in the market you need to look at  
2 both factors. You need to look at what's there today  
3 and what's coming tomorrow. You can't sit back and  
4 wait until competition has taken away 90 percent of  
5 your market to react. You have to react on a  
6 proactive basis. If you don't you will be out of  
7 business, and so when I say competition I'm talking  
8 more specifically about what do we see coming, what's  
9 happened in other states, what in essence can now  
10 happen in Washington, and effective competition would  
11 be contrasted with what is there today.

12 Q. Well, the reason I ask is that there is a  
13 statute in Washington that uses the term "effective  
14 competition," and when a service is subject to the  
15 statutory definition of effective competition then it  
16 can be classified as competitive and subject to  
17 reduced amount of regulatory oversight. Keeping that  
18 definition as I've represented it to you, is complex  
19 business line service subject to effective competition  
20 in Washington?

21 MR. SHAW: Your Honor, I will object to the  
22 question. One, Counsel didn't give the witness the  
23 definition of effective competition. Just referred  
24 that there is one and, secondly, the witness is not a  
25 lawyer and is not qualified to decide what a statute

1 means and and how it should be applied in a  
2 hypothetical sense.

3 MR. KOPTA: Well, I will rephrase the  
4 question.

5 JUDGE CANFIELD: Okay.

6 Q. Has U S West, to your knowledge, applied to  
7 the Commission for classification -- a competitive  
8 classification for complex business line services of  
9 Washington?

10 A. Not to my knowledge.

11 Q. Throughout your testimony, you have stated  
12 that it's U S West's philosophy to price services in  
13 order to reflect competitive market conditions. Is  
14 that a fair characterization of your testimony?

15 A. Yes, it is.

16 Q. Would you define for me what you mean by  
17 competitive market conditions?

18 A. Certainly. Competitive market conditions  
19 would be kind of the discussion we just had. It would  
20 be, what is the competition today? What are they  
21 charging, but on a more forward-going basis to the  
22 best of our knowledge is what is competition going to  
23 look like tomorrow? Who is it going to be? What  
24 kind of service are they going to offer and at what  
25 price and we to anticipate that and to design our

1 services in a similar manner to that kind of a  
2 forward-looking view of competition.

3 Q. So you evaluate both existing and potential  
4 competition?

5 A. Yes, as would any company, I believe.

6 Q. As far as existing competition goes, have  
7 you conducted any formal studies or analysis of the  
8 marketplace as it currently exists in the state of  
9 Washington for complex business services?

10 A. To the extent that we know where a lot of  
11 the alternative transport providers are, when they  
12 built some of their fiber rings around Seattle. We  
13 know that there are 60 different high rise buildings  
14 in downtown Seattle that could hook up today to an  
15 alternative transport provider. To that extent, yes,  
16 we have.

17 Q. Well, perhaps I should rephrase it. Is  
18 there a formal document or any other kind of writing  
19 that is devoted toward analyzing what the marketplace  
20 looks like in the state of Washington for complex  
21 business line services?

22 A. The marketplace to what extent? You mean  
23 how many lines we have?

24 Q. No, no. I mean the existing marketplace  
25 vis-a-vis the competitors, where they're located, how

1 much of a market share they have. That sort of thing.

2 A. Well, the study that I just referenced  
3 tells us where they're located. I mean, when we know  
4 there's a fiber ring that hits 61 high rises in  
5 downtown Seattle, we know where they are. Obviously,  
6 the competitors will not provide us with the number of  
7 customers they have so we don't have privy to that  
8 information on what their actual take rate is, if you  
9 will, because a lot of subscribers will use both an  
10 alternative provider as well as U S West, and we don't  
11 know. Now, if we could serve you with a data request,  
12 then we maybe could.

13 Q. Well, as far as I believe you testified  
14 resellers at the moment are the only existing  
15 competitors for U S West in the complex business line  
16 market; is that correct?

17 A. Well, they're the ones that we know about.  
18 I mean, I can't tell you what they're providing in all  
19 of these high rises that they pass. I can't tell you  
20 that, but I know there are resellers but there could  
21 be others. I can't testify to that.

22 Q. One assumes that they would have permission  
23 from the Commission before they offered those  
24 services?

25 A. One would assume that.

1 Q. And obviously some are in the process of  
2 doing just that?

3 A. True.

4 Q. So let me ask if U S West has conducted or  
5 you personally have conducted any studies that analyze  
6 potential competition, how much of a market share you  
7 can expect to perhaps lose under various scenarios to  
8 potential competitors in a given future time period?

9 A. Well, we have done some work looking at  
10 like where the highest penetration of lines are in  
11 Washington. It's something like one tenth of the  
12 total land has something like 40 percent of all our  
13 revenues. I mean, we know information like that, and  
14 all of that would mean all of those revenues are  
15 potential to be able to be -- for competitors to pick  
16 up. So to the extent that we know where there's  
17 concentrations of businesses where it's real economic  
18 then for a DDS to come in and encircle the area, I  
19 mean, you would say that ostensibly all 100 percent of  
20 the revenue that is located in that area is there.  
21 What those actual numbers are just seem like  
22 percentages, not saying, well, this is how much here.

23 Q. So you haven't, for example, set up a model  
24 whereby you say five years in the future if rates  
25 remain unchanged on the part of U S West and DDS begins

1 offering the same services in competition, we can  
2 expect to lose X percent of our business in complex  
3 business lines or anything?

4 A. No. I haven't seen it in that level of  
5 detail. It's much higher level than that.

6 Q. On page 4, line 16 of your testimony, you  
7 state, and I quote, "Services are priced above the  
8 price floor so that U S West Company can cover its  
9 product family costs, common overhead costs, and earn a  
10 reasonable profit." Would you define the term "product  
11 family costs"?

12 A. That might be better associated with  
13 Ms. Santos-Rach because the way the cost studies are  
14 done you have a long-run incremental cost that's  
15 product-specific, and then let's say you take all  
16 residence basic exchange, that would be a family, and  
17 there are costs that are family costs, if you will,  
18 above that long-run incremental and those are the ones  
19 that we are talking about, but she could define it in  
20 a lot more detail, but that's kind of what it is. So  
21 you've got product-specific and then family above  
22 that.

23 Q. What family is complex business line  
24 service?

25 A. Business basic exchange.

1 Q. What are common overhead costs?

2 A. My salary, staff functions, officers,  
3 buildings I think are included in that. But it would  
4 be everything that's really not product-related.

5 Q. And a reasonable profit, how do you  
6 determine that? Does it vary by service?

7 A. Yes, it would.

8 Q. And as the pricing -- person responsible  
9 for pricing that would be your determination, how much  
10 of a profit would be earned?

11 A. Right.

12 Q. Is that the same thing for common overhead  
13 costs, what percentage of the common overhead costs  
14 would be shared by each service?

15 A. Somewhat. I mean, that's more a function  
16 of maybe a higher level than product, but again, each  
17 product manager can look at that or sometimes what a  
18 product manager will do is they will look at the  
19 long-run incremental, the group-related costs, and then  
20 anything above that they may consider that margin, and  
21 that margin would include some of those overheads. So  
22 as a product manager they may not divide it down, the  
23 pricing may not look at each one of those elements,  
24 but they would be factored into it in aggregate.

25 Q. Well, let me see if I have a correct



1 picture of start to finish on pricing. Someone -- you  
2 have a product group and someone or a group of people  
3 develops the long-run incremental costs for a  
4 particular service, and they pass that information  
5 along to product manager such as yourself; is that  
6 correct so far?

7 A. That would be right.

8 Q. You then analyze the marketplace to  
9 determine how much of a markup above long-run  
10 incremental costs is appropriate for that particular  
11 service and is that the final price or does that go to  
12 someone else for further tweaking, as it were?

13 A. Generally that's the final price, except  
14 because we are still a regulated company a revenue  
15 requirement still may be factored into it in some  
16 instances but not usually at that time. I mean,  
17 generally that's pretty much it.

18 Q. So once you have a long-run incremental  
19 cost then it's really kind of up to you based on your  
20 market analysis to decide what kind of price to set  
21 above that cost floor?

22 A. Right.

23 Q. Would you turn to your testimony at page  
24 10, line 15, please.

25 A. Line 15?

1 Q. Yes. Actually, that's in the middle of the  
2 sentence, but the sentence begins at line 12 in which  
3 you are testifying that "artificial subsidies cannot  
4 be sustained in a competitive marketplace and U S West  
5 company must work with the Commission to correctly  
6 price business basic exchange service or it is  
7 inevitable that higher residence rate increases will be  
8 required in a more accelerated fashion."

9 Have you or someone else at U S West  
10 conducted a study to determine how quickly you would  
11 need to raise residential rates based on what happens  
12 in this particular filing?

13 A. This particular filing will not impact  
14 residence basic exchange rates. The philosophy that I  
15 espouse from this filing will over time impact those  
16 residence basic exchange rates but this filing will not  
17 impact them.

18 Q. Have you done a more or has U S West Company  
19 done a more generalized study on the impact of this  
20 pricing methodology or continued adherence to the  
21 earlier pricing model, what either one of those will  
22 impact on residential service?

23 A. Well, what we've done is we've looked at the  
24 long-run incremental costs for residence basic exchange  
25 service and our target over time will be to bring that

1 service at least to that price floor with targeted  
2 subsidies for those residential customers who would  
3 still need help in order to still maintain telephone  
4 service.

5 Q. So you have not or you are not aware of any  
6 studies in which there have been models in which  
7 looking at various scenarios you can determine how  
8 quickly residential service rates would have to be  
9 increased based on different variables?

10 A. Well, I guess what confuses me in your  
11 question is if our target is to bring residence basic  
12 exchange up to its LRIC cost we can do it in one fell  
13 swoop if the Commission so chose to allow us, and then  
14 in order to remain revenue neutrality lower some other  
15 services. So you can do it any way that you have -- I  
16 mean, you can do it all at once or you can do it  
17 incrementally, so that's why I'm puzzling how to answer  
18 you because in some jurisdictions we may recommend it  
19 be done all at once and in others it be done more  
20 gradually.

21 Q. My question was directed, have you looked at  
22 the various alternatives? You say there are a range  
23 of ways to do it and I suppose my question is directed  
24 toward have you taken each alternative and then  
25 developed a model based on that as to how quickly you

1 would or could raise residential rates?

2 A. Not specifically for Washington.

3 Q. On page 14 of your testimony, lines 9  
4 through 14, you discuss the reduction in complex rates  
5 and also the Commission order in the 1992 sharing  
6 proceeding. Is the \$5 reduction ordered by the  
7 Commission incorporated into the rate reductions that  
8 you've mentioned in the first sentence?

9 A. No, so we're proposing another \$5.60 in  
10 addition to that \$5.

11 Q. This is in addition to what the  
12 Commission --

13 A. Correct.

14 MR. KOPTA: I believe that's all I have.  
15 Thank you very much.

16 JUDGE CANFIELD: Thank you, Mr. Kopta.  
17 Mr. Finnigan.

18 MR. FINNIGAN: Thank you.

19

20 CROSS-EXAMINATION

21 BY MR. FINNIGAN:

22 Q. My name is Rick Finnigan. I represent the  
23 Washington Independent Telephone Association. And with  
24 that introduction we change focus a little bit on what  
25 we've been talking about. One of the filings that is

1 involved in this case asks to decrease rate groups 2  
2 and 3 for the business lines from, I believe, 32.50 and  
3 37.10 to 31.50 respectively for rate groups 2 and 3?

4 A. Right. What we really did is didn't reduce  
5 rate group 1.

6 Q. Right.

7 A. So however you want to say it, yes.

8 Q. I understand. What is the current rate for  
9 rate group 1?

10 A. The current rate for rate group 1 is 26.50.

11 Q. And is it my understanding that in  
12 U S West's view today the prices set for each of those  
13 rate groups is based on a value of service concept?

14 A. It's based on historical pricing which you  
15 could call value service.

16 Q. The rate groups 1, 2 and 3 are set by the  
17 number of access lines a customer can reach on a  
18 flat-rated seven digit dialing basis?

19 A. Right. I believe it is tied in with their  
20 home exchange rather than extended area service  
21 because they have another increment for that piece of  
22 it.

23 Q. With that clarification, then, a customer  
24 in rate group 1 has access to fewer customers than one  
25 that is in rate group 3 and therefore the perceived

1 value of service is less to a customer in rate group 1  
2 than in rate group 3. Is that part of the pricing  
3 concept?

4 A. No, not really until -- your value services  
5 -- maybe value service -- when you talk about value of  
6 service it's usually historical based and it doesn't  
7 really mean market-based pricing so I want to  
8 differentiate between that. If I'm in rate group 1  
9 and I can call 1,000 lines, that may or may not meet  
10 all of my needs. If I'm in rate group 3 and I can call  
11 200,000 lines, that may or may not meet all of my  
12 needs, so from a value basis it depends on individuals  
13 on whether or not that meets their needs, but  
14 understanding that still gives you that access to the  
15 network. What our concern is with the rate group 1 is  
16 more expensive to provision than is rate group 3, and  
17 rate group 3 is where we're going to see the  
18 competition enter, and so because of both costs and  
19 where competition is there's kind of an inverse  
20 relationship on the prices there, and it's based on the  
21 statewide average pricing.

22 Q. Thank you for that clarification. You got  
23 me to where I was going a lot quicker.

24 A. Oh, good.

25 Q. Given that it's more expensive to provision

1 a line for rate group 1 than it is for rate group 3,  
2 is it U S West policy to continue to correct the  
3 inversion in the rates that you've just referenced?

4 A. Yes. We would want to continue doing that.

5 Q. Do you have any plans to continue that  
6 movement beyond the present filing within the next  
7 year?

8 A. I'm not sure. It could be. I'm not sure  
9 of the timing and all of the filings, but it could be  
10 within the next year. Could be the next two, but yes,  
11 we are going to continue it.

12 Q. The next question I have for you is  
13 directed to the portion of the filing under -- dealing  
14 with directory assistance. Under your filing, as I  
15 understand it, you are desiring -- you desire to  
16 increase the directory assistance rate to 35 cents  
17 with one free call for residence customers and no free  
18 calls for business customers?

19 A. That is correct.

20 Q. In the proposed settlement or the motion  
21 for directed settlement that U S West has filed,  
22 U S West has offered to allow two free calls for  
23 business and four free calls for residential service.  
24 Are you familiar with that?

25 A. Yes.

1 Q. Assume for a moment that for one of a  
2 variety of reasons the Commission denies the motion  
3 that U S West has made. What is the company's position  
4 on the free calling allowance in this case? Are you  
5 seeking -- should the Commission deny your motion, are  
6 you seeking an order that would allow one free call for  
7 residential customers or are you willing to accept even  
8 if the Commission denies your motion the calling  
9 allowance contained in the proposed settlement?

10 MR. SHAW: Your Honor, I think I will  
11 object to that question. At this juncture the  
12 company's testimony as filed speaks for itself on what  
13 the company's case is. The company has not yet filed  
14 its rebuttal or its brief, and I don't think it's fair  
15 and I think it's premature to ask this witness to  
16 speculate on what the company might do at the end of  
17 this case.

18 JUDGE CANFIELD: I will sustain the  
19 objection. I think this witness has her testimony and  
20 she certainly is subject to questioning on it, and I  
21 don't know at this point whether that speculation is  
22 going to further matters that much and we do have  
23 later stages of the case to deal with as well so I  
24 think that will fall into place.

25 MR. FINNIGAN: Thank you.



1 JUDGE CANFIELD: Mr. Harlow.

2 MR. HARLOW: Thank you, Your Honor.

3

4 CROSS-EXAMINATION

5 BY MR. HARLOW:

6 Q. My name is Brooks Harlow. I represent MCI  
7 Telecommunications Corporation, Access Transmission  
8 Services and Metronet Services Corporation. Can you  
9 please tell me what marketing units are involved or  
10 affected by the three tariff proposals that are under  
11 suspension here?

12 A. Yes. Home and personal services, small  
13 business group and business and government services.

14 Q. What was the first one again?

15 A. Home and personal services.

16 Q. I take it that would affect primarily  
17 directory assistance?

18 A. That is correct.

19 Q. And small businesses would affect which?

20 A. The complex/simple redefinition and the  
21 complex price reduction.

22 Q. And third one?

23 A. I believe that's in government -- business  
24 and government services but we may need Mr. Rees to  
25 verify that.

1 Q. That would affect primarily term loop?

2 A. Yes.

3 Q. Small business and government I take it  
4 covers primarily larger businesses?

5 A. Yeah.

6 Q. Is there another business -- are there  
7 other business groups other than the small business  
8 and the business and government groups or units?

9 A. The only other one is carrier services  
10 which deals with, like, MCI.

11 Q. How many total -- in total how many  
12 marketing units is U S West divided itself into?

13 A. Four.

14 Q. These are the four you've just listed?

15 A. Uh-huh.

16 Q. Can you please tell me -- well, first of  
17 all, you head a marketing unit or do you head a --

18 A. I'm in a group called strategy development.

19 Q. Are you part of a specific marketing unit  
20 or are you separate?

21 A. Separate but integrated.

22 Q. Separate but equal. Did you work with the  
23 marketing units in developing the prices?

24 A. Yes, I did.

25 Q. Who made the ultimate decision? Who has

1 the last word on a filing such as this, these are the  
2 prices that try and get them in in Washington?

3 A. Generally the product manager submits them  
4 to the state regulatory organization, and the only  
5 thing that enters into it is specific regulatory  
6 requirements that may be prevalent in that state, but  
7 the marketing unit is the final determinant of what is  
8 submitted.

9 Q. I take it each marketing unit is composed  
10 of a number of product managers?

11 A. That is correct.

12 Q. I would assume that -- let me back up,  
13 let's not assume that. Are there any other product  
14 managers that would like to see lower prices for their  
15 services?

16 A. I'm sure there are. Yes, there are.

17 Q. And what is your involvement with the  
18 product managers prior to filing tariff changes?

19 A. I'm on all of the product teams that  
20 represent the products like -- that I have such as  
21 business and residence basic exchange. I'm an active  
22 member of those product teams and meet with the  
23 product managers, I would say, on a daily basis.

24 Q. I take it from your answer a moment ago  
25 that somebody has to make a decision if you're going

1 to increase prices like term loop prices and, you're  
2 going to offset that with some decreases, somebody  
3 apparently has to make a decision as to whose product  
4 gets the lower prices; is that correct?

5 A. It's not really who gets the lower prices,  
6 it's more of what makes sense in a specific filing to  
7 do. So like in this filing when you're talking about  
8 term loops, for example, in a complex rate reduction,  
9 that makes sense to pair those together because you're  
10 talking generally about the same customers.

11 Q. But I guess, who makes a decision, then, as  
12 to what makes the most sense to U S West as a whole in  
13 terms of which prices to lower and which ones not to  
14 lower in any given filing?

15 A. It's usually done in a cooperative. I've  
16 been in meetings where we make those kind of  
17 decisions. It usually has the product manager, the  
18 state regulatory group and myself involved and we  
19 decide, well, what makes the most sense, so I would  
20 say it's a cooperative decision.

21 Q. Given your title of -- which involves  
22 strategy, do you provide some input on which prices  
23 would be more strategically beneficial for U S West to  
24 lower as compared to others?

25 A. Yes, I do.

1 Q. What sorts of things come into your  
2 recommendations?

3 A. Knowledge of each individual state's  
4 regulatory environment, knowledge of that state's  
5 competitive entry, who is coming in at what rates.

6 Q. Is price elasticity one of the things you  
7 would take into account?

8 A. It is a factor.

9 Q. Is the instance or lack of competition a  
10 factor?

11 A. Considering we know that there is going to  
12 be competition in the very near future, it's a factor.  
13 We say, yes, we need to start meeting our competitors.

14 Q. Is the vigor of that potential competition  
15 a factor?

16 A. The potential vigor is.

17 Q. Were you involved from the beginning in  
18 development of these filings?

19 A. Yes, I was.

20 Q. How did they get started, if you will?  
21 Kind of a broad question but I don't know how to  
22 direct it since I wasn't there.

23 A. The product managers develop strategies,  
24 for example, the business strategy that I detailed in  
25 my testimony. The directory assistance people have a

1 strategy. I'm sure the term loop people have a  
2 strategy.

3 Q. I take it the term loop group's strategy was  
4 we want to get prices up above cost?

5 A. Yes, as was the directory assistance as  
6 well.

7 Q. I don't know if there's a chicken and egg  
8 process here or not, but if there was, which came  
9 first? The decision to increase certain prices or the  
10 decision to decrease prices?

11 A. They were made by independent groups so I  
12 would say there isn't a chicken or an egg. They were  
13 probably done simultaneously.

14 Q. Who got the two groups together?

15 A. Generally the regulatory group because  
16 different groups come to them and say, this is what we  
17 want to do with our product, how can we get there?  
18 For example, the directory assistance hits well below  
19 its costs so we know what we want it to be, how do we  
20 best get there, and the regulatory groups help to  
21 bring that all together.

22 Q. It would be your understanding that in  
23 Washington under the current AFOR plan for U S West  
24 that U S West could not increase rates in any given  
25 filing by more than \$900,000 without offsetting

1 decreases?

2 A. I believe that's correct. It's 950 I  
3 think, but yes, in a one-year period.

4 Q. So it's not a chicken and egg but the two  
5 things do have to be tied together in some way?

6 A. I'm not as familiar with the AFOR plan, but  
7 for an increase such as term loops and directory  
8 assistance we can bring them up closer or above their  
9 cost if they're within that \$950,000 band. If we need  
10 to bring them clear to cost -- above their costs,  
11 then we need something else to come down is my  
12 understanding.

13 Q. Do you recall whether any other product  
14 managers who have services priced above costs tried to  
15 get their products' prices reduced in connection with  
16 this filing?

17 A. Not in connection with this filing. To my  
18 knowledge there were none.

19 Q. Are there any not in connection with this  
20 filing that you can think of that want to have their  
21 prices reduced?

22 A. Yes.

23 Q. Can you tell me what those are, please?

24 A. Over time I'm sure we want to reduce some  
25 of our switched access rates. We want to do further

1 changes to business basic exchange, which are  
2 highlighted in my testimony. Those would be the two  
3 that I can think of right off the top of my head.

4 Q. Is there a product manager over switched  
5 access?

6 A. Yes.

7 Q. The switched access product manager, I  
8 believe you've indicated, wants to reduce them but  
9 didn't want to do it in this filing. Is that a fair  
10 summary of your testimony?

11 A. The timing was such they weren't at that  
12 time making that proposal. It did not enter into this  
13 filing at all.

14 Q. So was there a conscious decision, then, to  
15 exclude switched access from the reductions in these  
16 filings?

17 A. No.

18 Q. Was there any strategic discussion of  
19 reducing switched access -- or, excuse me, reducing  
20 business basic exchange as opposed to switched access?

21 A. No. Switched access did not enter into  
22 this filing at all. The ones that you have in here  
23 were the ones that at the time we filed in August were  
24 the ones that the product managers had come and said  
25 we need to do something with these services.



1 Q. Are you familiar with the markup of basic  
2 business exchange access lines over cost just in rough  
3 percentages?

4 A. Yes.

5 Q. How would that compare -- are you familiar  
6 with the markup of switched access over its cost?

7 A. No.

8 Q. Will you accept subject to check that it's  
9 probably substantially guaranteed the markup for  
10 business basic exchange lines?

11 A. I don't know that.

12 Q. Would Ms. Santos-Rach be familiar with  
13 those numbers?

14 A. She would probably know the cost, but I  
15 don't think she would know the prices so, no, probably  
16 not.

17 Q. Would any other witness in this proceeding  
18 for U S West know that?

19 A. No.

20 Q. Just in rough terms?

21 A. I don't believe so. None of us deal with  
22 switched access in this filing.

23 Q. So I guess summarizing your testimony,  
24 there weren't any strategic decisions one way or the  
25 other as to which above-cost services should be reduced

1 in price in comparison with others that may or might  
2 not be comparably above cost; is that correct?

3 A. At the time the filing was made the highest  
4 priority and the one that the product manager asked be  
5 done, the only one that was there, was the business  
6 restructure and the reduction of the complex line rate.

7 Q. Are you basically saying, then, it was kind  
8 of the luck of the timing in other words?

9 A. Well, no, I think it was a strategy, the  
10 timing of the strategy was better.

11 Q. What's the strategy?

12 A. It's what I have in my testimony, to move  
13 the four first lines -- is that what you're asking me  
14 -- to make them not have to pay the complex line rate  
15 when you buy the fifth line rate and to reduce the  
16 complex line rate.

17 Q. You're referring to the general strategy in  
18 your testimony, not any specific strategy?

19 A. Well, the specific strategy are the two  
20 rate proposals that we have for business basic  
21 exchange. The general strategy that I have expounded  
22 in my testimony goes beyond that explaining longer  
23 term some of the things that we think need to be done.

24 Q. So basically what you're saying then is  
25 your filing doesn't address your general strategy

1 other than small kind of piecemeal way; is that  
2 correct?

3 A. I wouldn't call it piecemeal. I would say  
4 it's a first step in meeting our strategy.

5 Q. Has there been any study done to determine  
6 whether it would be more in the public interest to  
7 reduce the prices that are going to be reduced in this  
8 filing as opposed to other prices that aren't being  
9 reduced in this filing? Has there been any comparison  
10 made?

11 A. Do you mean whether they should be done or  
12 when? I don't understand your question.

13 Q. Well, obviously there's been a preference  
14 here that one particular product manager through  
15 timing or strategy or whatever is going to get his or  
16 her prices lowered or his or her product, correct, and  
17 others with similar markups aren't getting any price  
18 reductions; is that correct?

19 A. Well, in this filing, that's correct. It  
20 certainly doesn't preclude them from the next filing  
21 to receive that treatment.

22 Q. But what I'm trying to get at, the question  
23 I'm trying to get answered is, is that some kind of a  
24 conscious decision, part of a determination that the  
25 public interest will best be served by this reduction

1 as opposed to some other reduction or is that an  
2 accident of timing and that that product manager  
3 happened to be in the right place at the right time?

4 MR. SHAW: Your Honor, I think I'm going to  
5 object because it's repetitious but primarily U S West  
6 is not the arbiter of the public interest, whatever  
7 that is. I think the witness has adequately answered  
8 the question of why we filed this. We didn't include  
9 all the services in this filing because we didn't have  
10 room for all the intervenors that would show up.  
11 Filing only applies to three services and no more than  
12 that.

13 JUDGE CANFIELD: And you're following up,  
14 Mr. Harlow, you're trying to understand her last  
15 series of responses whether it's some part of an  
16 overall plan the way it is presented in this filing?

17 MR. HARLOW: Right. And the impact on the  
18 overall public interest. Obviously, when you take a  
19 piecemeal approach to tinkering with rates in  
20 furtherance of what's supposed to be a broad strategy,  
21 you're referring some services to some customers  
22 arguably at the expense of others. And likewise you're  
23 meeting some competitors with heavier price reductions  
24 than others, so I think it's important that the  
25 Commission be aware of whether or not -- of what the

1 big picture is and whether or not in the big picture  
2 the filing is in the public interest. I believe that's  
3 the ultimate issue in this case.

4 JUDGE CANFIELD: As far as her testimony on  
5 public interest, I don't know that she's necessarily  
6 the best person to make that judgment, but as far as  
7 her knowledge of the overall plan I think she can  
8 maybe clarify that if it hasn't already been  
9 clarified. I will allow one more bite out of that one  
10 just to get that clarified to your understanding. Go  
11 ahead and answer that last question then, Ms. Owen.

12 A. Could I have the question restated?

13 Q. I will try to use the judge's words. Is  
14 there an overall -- was this an overall plan in the  
15 sense of looking at all services in determining which  
16 prices to drop and which ones not to drop?

17 A. Within the context of this filing we did as  
18 much as we thought we could do within the parameters  
19 of all three services, so within the context of this  
20 filing there was no intent to make this some huge  
21 filing. I mean, ideally we would increase residence  
22 basic exchange to its long run incremental cost; we  
23 may reduce switched access, but that was not the  
24 intent of this filing. The intent of this filing was  
25 to correct two pricing anomalies that we have in term

1 loops and directory assistance and the other was to  
2 lower business basic exchange rate and they're all  
3 equally important strategies so I'm not sure -- to say  
4 what is the most you have to look at the whole  
5 continuum of products and I say this is a very  
6 important thing to get done now and start sending the  
7 right economic signals to our competitors.

8 Q. I guess I take that as a qualified no to my  
9 question?

10 A. I need you to restate it because I don't  
11 know what you mean by qualified no.

12 Q. The question was whether there was an  
13 overall plan?

14 A. Well, there is an overall plan over time.  
15 That's correct, that's what I said.

16 Q. But it's being implemented on a rate by  
17 rate basis rather than an overall plan that's being  
18 implemented all at once -- excuse me not all at once  
19 but a piece at a time where you know where the next  
20 step is?

21 A. We know where we want to go with our prices,  
22 that's correct, and any given filing you can't go from  
23 point A to your final pricing in one step, so this was  
24 a good filing to make that first incremental step.

25 Q. All right. I'm still not sure I've got an

1 answer to my question. You say this was a good first  
2 step, right?

3 A. Right.

4 Q. Was there a plan that said this is the best  
5 first step as opposed to some other step?

6 A. There was a negotiation that this was the  
7 best first step by the impacted product manager issues.  
8 A year ago we weren't ready for another step so this  
9 was the first best step.

10 Q. Who was involved in the negotiations with  
11 other -- what other product managers?

12 A. Those that had indicated that they had some  
13 filing they wanted to do in Washington within the  
14 parameters of the guidelines that we have under our  
15 alternative form of regulation.

16 Q. Were there some product managers in this  
17 negotiation that did not get to have a rate decrease  
18 filed as part of this filing?

19 A. To my knowledge, no, not that I am aware of  
20 any way.

21 Q. In preparing your -- in developing the  
22 prices I understand you looked at the competition and  
23 potential competition for the services affected?

24 A. That is correct.

25 Q. And so would you have looked at MCI as a

1 potential or actual competitor?

2 A. You bet.

3 Q. Also ATS?

4 A. That's your Access Transmission?

5 Q. Right.

6 A. I am not personally familiar with them, but  
7 we could have and may not have known it.

8 Q. How about Shared Tenant Services?

9 A. Yes.

10 Q. How about Metronet?

11 A. Yes.

12 Q. How about ETI?

13 A. Yes.

14 Q. Did you do your best to estimate their  
15 market shares of those various companies?

16 A. No. That was asked of me earlier, and we  
17 don't have a way of knowing market share because  
18 that's privileged information that we do not have  
19 access to.

20 Q. You don't have access to the number of  
21 lines that Metronet and ETI purchase and resell or  
22 rebill?

23 A. We don't know how many they resell or  
24 rebill. We know how many lines they repurchase from  
25 us.



1 Q. So you do have access to the number of  
2 lines they repurchase?

3 A. Yes, if they're a reseller like Metronet.

4 Q. Did you analyze the effect of this filing  
5 on companies such as Metronet and ETI?

6 A. Not specifically, no.

7 Q. Well, how about generally?

8 A. Generally we believe there is still room  
9 with this reduction for a reseller to still resell and  
10 be above our prices, but I don't have that data  
11 specifically.

12 Q. Was that data calculated and written down  
13 at some point in time?

14 A. There was one analysis done but it was  
15 subject to attorney-client privilege.

16 Q. Who did the analysis?

17 A. One of the product managers.

18 Q. Can you give me that person's name?

19 A. Ms. Butrim.

20 Q. How do you spell that for the record?

21 A. B U T R I M.

22 Q. And who did she provide the analysis to?

23 A. One of our attorneys.

24 Q. Did she provide it to anyone else?

25 A. Not to my knowledge.

1 Q. Do you know why she prepared the analysis?

2 A. I believe it was done as part of our  
3 modified final judgment review that is done for all  
4 product changes.

5 Q. Would it be for MFJ compliance?

6 A. Yes.

7 Q. And is a document such as this, is it your  
8 understanding that this is reported to the Department  
9 of Justice periodically?

10 A. I don't know. I would assume so. I'm not  
11 real involved in that because I don't get involved in  
12 the preparation of those documents.

13 Q. To your knowledge, Ms. Butrim didn't  
14 circulate it amongst anyone else?

15 A. To my knowledge she did not.

16 Q. Did she discuss the analysis with you?

17 A. To the extent that she provided it.

18 Q. At the time she discussed it were your  
19 attorneys present?

20 A. Ms. Hastings was.

21 Q. Did you have any discussions where your  
22 attorneys weren't present?

23 A. Just to tell me that she had it.

24 Q. Is there any part of her conclusions that  
25 are not considered attorney-client privileged at this

1 time?

2 A. Not that I am aware of.

3 Q. Would it be your understanding that in  
4 reducing business access lines that that would  
5 decrease the profit margins of companies such as  
6 Metronet and ETI?

7 A. It might if you lost subscribers because  
8 they came back to U S West service but I can't tell you  
9 whether that would happen or not. I don't know.

10 Q. Might it also if those companies had to  
11 reduce those prices in order to remain competitive  
12 with U S West?

13 A. It might if they didn't continue to  
14 increase their subscribership. I mean, you can  
15 increase your subscribership and maintain your  
16 revenues.

17 Q. Are you familiar with the changes in the  
18 number of subscribers in Metronet and ETI over say the  
19 last five years?

20 A. No, I'm not.

21 Q. So you don't know whether they are  
22 presently increasing or decreasing in their number of  
23 subscribers?

24 A. No, I don't.

25 Q. I assume that the goal of decreasing your

1 business line rates is to become more competitive with  
2 companies such as Metronet, ETI, DDS and so forth?

3 A. Well, that's certainly part of it, but also  
4 from an economic perspective we're really sending the  
5 wrong economic signals to potential competitors. If  
6 you say this rate is up here at 37.10 that would tend  
7 to tell potential competitive entrants that, well, I can  
8 price mine at 35, still make a significant profit on  
9 it and be sustainable in the future. I don't believe  
10 that rate is sustainable. I think we need to send the  
11 right economic signals. Say the true price should be  
12 down -- let's arbitrarily say \$33 -- and that's where  
13 the true price should be and that competitor in  
14 fairness to them needs to know what is the true price  
15 that you can come in at and be sustainable at in the  
16 future.

17 Q. Does that mean that the rate you've  
18 selected now is the rate that's going to be maybe  
19 obtained for the inevitable future?

20 A. No, I can't say that. If circumstances  
21 change, competition changes, costs may go down.

22 Q. As I understand it, you're planning to  
23 continue to lower the pricing; is that correct?

24 A. We have several things. I'm not sure how  
25 much more we will lower, but things we need to do is

1 the rate group restructure and over time get rid of the  
2 simple/complex differentiation.

3 Q. In making U S West more competitive, I take  
4 it that a consequence of that is making other market  
5 entrants less competitive potentially?

6 A. No, I don't believe that's true. I think  
7 the whole issue here is, number one, what's best for the  
8 customers in Washington. It doesn't make sense to me  
9 for anyone to maintain artificially high prices that  
10 were established in order to give subsidies to  
11 residential users and other users and at the same time  
12 send uneconomic signals to potential competitive  
13 entrants saying, sure, come in at a rate even though  
14 we know over time we're going to reduce it. Why make  
15 our customers pay a higher rate just to encourage  
16 uneconomic entry. It doesn't make sense to me.

17 Q. Would you agree with me that if you lower  
18 your price that a potential competitor will have  
19 potentially less of a profit margin on a per customer  
20 basis to be made?

21 A. It could have that effect and that profit  
22 margin may mean their stockholders don't get as much,  
23 but if it means the customers in Washington get a  
24 better deal, so be it.

25 Q. Would you agree that it might also

1 discourage possible market entrants from entering the  
2 market?

3 A. I don't believe it would discourage true  
4 competition. What it might discourage is people that  
5 really should not be entering the market in the first  
6 place, that are uneconomically solvent enough to enter  
7 it.

8 Q. Let's take the hypothetical of one that is  
9 solvent enough to enter it. Would you agree that in  
10 reducing a potential profit margin that it would make  
11 this market less attractive to enter it perhaps another  
12 market where there's another higher profit margin?

13 A. It certainly might have that impact.

14 Q. Looking at your complex/simple restructure,  
15 you indicated that your direct testimony that the  
16 reduction would be about \$43 for a five-line customer  
17 as a result of the restructure.

18 A. I will have to look that up. The one, the  
19 example I gave in my testimony you mean?

20 Q. This is a calculated -- on page 13 you  
21 indicated that the fifth line customer currently  
22 experiences an increase of \$43.60; is that correct?

23 A. On page 15?

24 Q. Right, to go from a four-line to a five-line  
25 system. Page 13 in the middle. I apologize. I'm

1 going the wrong way.

2 A. Yes.

3 Q. Would you agree subject to check that that  
4 would be a reduction in rate? For, say, a hypothetical  
5 five-line customer that would be a reduction in rates  
6 from about \$185 a month to \$142 per month --

7 A. Subject to check.

8 Q. -- if the restructure is approved?

9 A. Yeah. I think there was an interrogatory  
10 we discussed earlier that actually had the actual  
11 numbers in it, but subject to relooking that up, I  
12 would agree with that.

13 Q. Would you agree that that's approximately a  
14 25 percent reduction?

15 A. Yes.

16 Q. Would you agree that that would be the  
17 largest percentage reduction that any customer would  
18 receive would be for the hypothetical five-line  
19 customer?

20 A. Yes.

21 Q. And from that point the rate reduction  
22 would taper off to approaching zero percent?

23 A. Well, actually, I think most of the other  
24 ones in our example were like 17 percent.

25 Q. Okay. But I mean, the more lines that a

1 customer has the smaller percentage decrease that  
2 represents?

3 A. Right.

4 Q. Eventually it approaches zero although it  
5 never quite gets there, correct?

6 A. That will be true. We've only done the  
7 study up to 30 lines, but mathematics tell me that,  
8 yeah, you're right.

9 Q. Are you familiar with the average line size  
10 of customers of Metronet and ETI?

11 A. No, I'm not.

12 Q. Have you ever heard of any figures  
13 mentioned?

14 A. No, I haven't.

15 Q. Have you used any assumptions in analyzing  
16 the effect on competitors of average size?

17 A. No. But understand, this rate proposal is  
18 not for the benefit of the competitors. It's for the  
19 benefit of our customers.

20 Q. I think I understand that.

21 A. That's why no analysis has been done for  
22 the benefit of competitors.

23 Q. Have you done any analysis of the percent  
24 of the markets that resellers have compared to  
25 U S West?



1 A. No. I don't have that.

2 Q. Do you agree that customers that buy a  
3 higher volume of lines should receive discounts?

4 A. Yes.

5 Q. Do you agree that customers that cause  
6 U S West to incur the same costs for the same number of  
7 lines should pay the same prices?

8 A. If I understood your question, no, in that  
9 as long as all of the prices for all of the lines is  
10 above each line's long-run incremental cost, I don't  
11 believe what you said is true. That's the whole  
12 purpose of going away from this punitive-type  
13 structure we have today.

14 Q. Let me clarify. Let's say you have two  
15 1,000-line customers, would you consider those to be  
16 high volume customers?

17 A. High volume in number of lines they take,  
18 yes.

19 Q. Would you agree that those two customers,  
20 assuming they cost the same for U S West to serve, that  
21 those two 1,000-line customers should get the same  
22 discount?

23 A. Probably, unless there's some other factors  
24 that could enter into it. For example, current  
25 structure, if one was in rate group 1 and one was in

1 rate group 3 that may not be possible.

2 Q. But assuming they're in the same rate  
3 group?

4 A. And all other things being equal, probably  
5 true.

6 MR. HARLOW: That's all the questions I  
7 have, thank you.

8 JUDGE CANFIELD: Mr. Trotter.

9

10 CROSS-EXAMINATION

11 BY MR. TROTTER:

12 Q. Starting with your qualification statement,  
13 what was your undergraduate degree in?

14 A. It was in rhetoric and public address.

15 Q. So your testimonial experience was gained  
16 in the trenches, your 22 years?

17 A. Yeah. Really I've never used it. It's one  
18 of those things you wonder how you get where you are,  
19 but, yeah, I was in the business office and outside  
20 plant engineering. Yes, it was definitely in the  
21 trenches.

22 Q. I think you're using it.

23 A. Is that a complement?

24 Q. In response to some questions from Mr. Kahn  
25 from the city of Bellevue, you said that, at least I

1 heard you say, the issue with terminal loops isn't  
2 competition, it's cost. Do you recall that testimony?

3 A. Yes.

4 Q. And when you used the phrase or the term  
5 "terminal loops," were you referring also to tie lines,  
6 remote central office and off-premises extension?

7 A. Yes. I was using it very generically  
8 referring to all of those that are in Mr. Rees's  
9 testimony, that's correct.

10 Q. And is the issue with directory assistance  
11 the same? That is, it isn't competition, it's cost?

12 A. That is correct.

13 Q. So for all the rates that are going up in  
14 this case, competition is not the issue, it's cost?

15 A. That is correct.

16 Q. And so all of your testimony about  
17 competition then relates to those services that are  
18 going down which are your business exchange rates and  
19 then the simple/complex?

20 A. Right. It's competition but it's also the  
21 simple/complex restructure is more than just  
22 competition. It's because it doesn't make sense, so  
23 it's both of those.

24 Q. Let's talk about the one that doesn't make  
25 sense. In reviewing Exhibit 20, which was the tariff

1 advice which apparently established the simple/complex  
2 distinction, did you talk to the people at PNB, which  
3 it was at that time, to determine their justification  
4 for the proposal?

5 A. I tried. They're not around. The ones that  
6 are the product managers now for business basic  
7 exchange have been in place for probably four or five  
8 years and they knew no more than I have been able to  
9 tell you on why that was originally done except for the  
10 blurring between PBX and key systems and inability to  
11 police it, but I did try to find out more and that was  
12 all I was able to find out.

13 Q. Is it your opinion that the current  
14 structure is -- I think you said you were amazed by it  
15 and it's punitive and doesn't make sense. Would you  
16 have viewed it -- based on all that you know so far,  
17 would you maintain that view as of 1987?

18 A. Logically, yes, except I believe -- now  
19 this is a guess, but I know that eight, ten years ago,  
20 I believe our costs were much higher and that the  
21 usage cost was higher and because PBXs and key systems  
22 tend to have greater usage it did impact the cost, but  
23 the cost today of usage as you can find it in  
24 Ms. Santos-Rach's exhibits is very small, and so that  
25 eliminates a lot of the -- trying to base the rate on

1 a cost differential, it's just not there anymore. But  
2 from a logic we've always gotten discounts. You go  
3 into a department store and you buy one pair of shorts  
4 at full price and you get the second pair at half  
5 price. So logic, I don't understand why we ever did  
6 that other than the usage cost basis. That's the only  
7 one I have heard.

8 Q. And what was the differential on the cost  
9 of usage in 1987 or in that time frame?

10 A. I don't know. I just know that it was  
11 higher than what it is today, and I don't know if  
12 Ms. Santos-Rach was around then. She's shaking her  
13 head no, she wasn't around then either. I just know  
14 the cost has come down but I can't quantify that for  
15 you.

16 Q. And you don't know whether that would be a  
17 defense of the structure that was put in place by  
18 Exhibit 20, appears to be in 1987?

19 A. I don't know that. That's strictly a  
20 guess.

21 Q. According to Exhibit 20 the company's  
22 position in 1987 was that -- I will quote -- "this  
23 filing redefines simple and complex service to create a  
24 more understandable and manageable rate structure  
25 for local exchange services."

1           A.       And my understanding of that was because of  
2     the way when we lost the ability to be the sole  
3     provider of customer-provided equipment we didn't know  
4     whether a customer was hooking up key equipment,  
5     whether they were hooking up a PBX or what, so because  
6     we couldn't do that and police it, that was part of  
7     the driver to try to not say, well, you have to pay  
8     this because you have a PBX and you get simple rates  
9     because you have a bunch of 1FB flat lines.

10          Q.       That may explain the manageability, but  
11     what about the understandability?

12          A.       Well, if you've only got two rates to look  
13     at and customers know that if you take more than this  
14     number of lines you have to pay this rate because  
15     you're considered a larger customer, I think that's  
16     all they're saying is that it was real definable.

17          Q.       Turning to more general policy-type issues.  
18     What is U S West's policy in the situation where  
19     competitors are pricing their products below your cost?

20          A.       Well, I think from a competitive viewpoint  
21     we can't go below our long-run incremental costs. Are  
22     you asking me if we price below that?

23          Q.       What would your strategy be in that  
24     context?

25          A.       In that context our strategy would be to

1 make ours the highly -- more highly valued service,  
2 increase the quality of it, responsiveness, that kind  
3 of thing. So make it more valuable to the customer,  
4 therefore have them more willing to pay more for it.

5 Q. Does that complete your answer?

6 A. Yes.

7 Q. In that answer, you didn't say anything  
8 about seeking efficiencies to reduce your costs.  
9 Would that be something that the company would  
10 consider?

11 A. Thank you. Yes, it would.

12 Q. Now, in the context of the services for  
13 which prices are increasing in this case, are you  
14 aware of any analysis done by the company in which any  
15 -- in examining each of these services to determine  
16 whether they can be provided at a lower cost through  
17 new technologies or reduced work force or other types  
18 of cost-cutting measures?

19 A. I think you probably should ask  
20 Ms. Santos-Rach, but it's my understanding they're long  
21 run, they are forward-looking and they do look at new  
22 technologies such as digital, but how that relates --  
23 but because they are forward looking it's my belief  
24 that they do take that kind of technological advance  
25 into account.

1 Q. Would you say that U S West had a very high  
2 -- excuse me -- has a high cost structure in terms of  
3 salaries and benefits and overheads and that sort of  
4 thing?

5 A. I don't have anything with which to compare  
6 it so I can't answer that.

7 Q. Is that a concern of U S West's, its  
8 overhead?

9 A. I would say it is. I think like all  
10 companies we're trying to do something about it.

11 Q. The buzz word these days is downsizing?

12 A. That is the buzz word.

13 Q. And U S West has been doing its share of  
14 that?

15 A. Yes, we have.

16 Q. Any reflection of that downsizing would be  
17 asked better of other witnesses?

18 A. Yes. Ms. Santos-Rach. She knows what's  
19 included in her actual cost studies.

20 Q. In response to another question from the  
21 city of Bellevue, you referred to revenue  
22 requirements. What relation does LRIC have to revenue  
23 requirements, in your opinion?

24 A. LRIC, the long-run incremental costs, are  
25 used more from a pricing perspective, and I am not an



1 expert on how we figure revenue requirement so I  
2 probably should not be the one to try to answer that.

3 Q. Do you know what U S West's policy is in a  
4 situation where it prices above LRIC costs and that  
5 results in exceeding its authorized return?

6 A. Do you mean for that one product?

7 Q. Overall. I didn't talk about a particular  
8 product. Talked about general.

9 A. When you're talking about LRIC, you are  
10 talking about products to me.

11 Q. Say you have several products.

12 A. If I have several products all of which are  
13 priced upon their long-run incremental cost would that  
14 mean I would exceed?

15 Q. No. If pricing that way causes you to  
16 exceed your authorized return or exceed your revenue  
17 requirement, what is your policy in that context?

18 A. It would depend on what agreement we have  
19 with the Commission.

20 Q. Assume no agreement.

21 A. I assume that you would -- we would  
22 continue unless there was something that changed that  
23 structure. I mean, you're asking kind of a  
24 hypothetical, but it depends then also on do we need  
25 to do something because we're in a competitive

1 marketplace with any of those products, because the  
2 converse may occur. We may go in and ask for  
3 something to be reduced in order to better meet the  
4 competition. So it has a whole bunch of variables in  
5 answer to your question. You could do nothing. You  
6 could reprice.

7 Q. You haven't addressed that situation in  
8 this case, I take it?

9 A. No, not specifically other than in the  
10 context of looking at the revenue impacts of all three  
11 filings, all three products.

12 Q. Turn to page 8 of your testimony. Here  
13 you're talking about what competition looks like in  
14 Washington and on line 23 you indicate that statewide  
15 rates will have to be deaveraged. Do you see that?

16 A. Yes.

17 Q. Does your proposal in this case involve any  
18 rate deaveraging?

19 A. No, it does not. That would be more like  
20 the change in the rate group structure.

21 Q. Is it your testimony that the Commission  
22 needs to agree with your deaveraging policy statement  
23 in order to accept your filing or what is your  
24 recommendation to the Commission with respect to  
25 action on this deaveraging policy that you're

1 enunciating?

2 A. For this filing we're not doing anything  
3 with deaveraging, and the whole pricing discussion was  
4 really to set the stage and say this is where we think  
5 we need to go over time, so my expectation is not that  
6 the Commission specifically do anything about  
7 statewide deaveraging of rates. It's more that the  
8 Commission knows that we think that is imperative to  
9 do over time.

10 Q. And is it necessary for the Commission to  
11 accept that philosophy or that policy in order to  
12 approve this filing?

13 A. No, it is not.

14 Q. Similarly, you discuss residential rates in  
15 your testimony and talk about increases over time to  
16 that service. You're not proposing any such increase  
17 in this case?

18 A. No, we're not.

19 Q. And is it essential in your mind or  
20 necessary for the Commission to adopt your policy  
21 statement on that issue in order to accept your  
22 proposal in this case?

23 A. No, it is not.

24 Q. You do make it clear that this is a first  
25 step. You've identified what U S West sees as being

1 potential future steps; is that right?

2 A. That is correct.

3 Q. And I believe it was in response to some  
4 data requests, but you have no specific timetable for  
5 those additional steps, do you?

6 A. No. I think they will be occurring  
7 periodically.

8 Q. It's not necessary for the Commission to  
9 adopt your overall strategy and all of the steps in  
10 order to approve this filing, is it?

11 A. No.

12 Q. Would you refer to public counsel data  
13 request 01-006?

14 A. Yes.

15 Q. In this data request we asked you in  
16 reference to your testimony on page 8 lines 2 to 6,  
17 "Please provide any documents relating to market share  
18 data and any other data on market competitiveness  
19 specific to the services at issue in this  
20 proceeding"; is that right?

21 A. Right.

22 Q. And your response was, "U S West objects to  
23 this request on the basis that it is vague and will not  
24 lead to the discovery of admissible evidence. Without  
25 waiving the foregoing, see the documents provided as

1 confidential attachment A. Attachment A is provided  
2 pursuant to the terms of the protective order." Did I  
3 read that correctly?

4 A. You did.

5 Q. And the attachment dealt with an analysis  
6 of competitive access providers; is that right?

7 A. That is correct.

8 Q. Your testimony talks about competitiveness  
9 in Washington. Would the evidence requested in this  
10 data request be characterized as not leading to  
11 admissible evidence, in your opinion?

12 MR. SHAW: Object, Your Honor. That's a  
13 legal objection obviously to a discovery request made  
14 by counsel and if it's going to be challenged this is  
15 not the time for a motion to compel through a witness.

16 MR. TROTTER: Your Honor, the respondent on  
17 this data request is designated as Mary Owen, not  
18 counsel.

19 MR. SHAW: Your Honor, the blanket auto  
20 play request was to identify the respondent for each  
21 request. Counsel wrote the objection and Ms. Owen  
22 supplied the attachments that were supplied  
23 notwithstanding the objection.

24 MR. TROTTER: Let me ask it this way to  
25 you, if I might. Since you provided the information,

1 do I take it correctly that you have provided us with  
2 the information that was available? The reason I  
3 mention this is many other requests have this same  
4 objection but the data is provided; I want to be clear  
5 that the information that was provided although  
6 objected to is still the information that we can rely  
7 on as being responsive.

8 MR. SHAW: As with all the data requests,  
9 Your Honor, subject to a reasonable search, these are  
10 the documents that we had, although there can be many,  
11 many more.

12 MR. TROTTER: As record requisition 3, I  
13 would just request that the company review the  
14 responses provided to date and for those to which they  
15 have objected yet provided information to determine  
16 whether the evidence provided is the information that  
17 responds to the request.

18 And, Your Honor, the reason I do that is we  
19 didn't make a motion to compel because we thought  
20 we got a response, and if you want to put it in -- I'm  
21 not putting it in at this time -- if we want to put it  
22 into evidence we can't. There's no need to move to  
23 compel if it's already been provided so it places us  
24 in a dilemma, but I will leave my record requisition if  
25 it's accepted and hope for the best.

1                   JUDGE CANFIELD: Could you endeavor to  
2 review that, Mr. Shaw, to confirm that in a record  
3 requisition?

4                   MR. SHAW: Yes, Your Honor. I would like  
5 to reserve potential objections to the record  
6 requisition. Record requisitions are objectionable as  
7 data requests if they're objectionable. Just because  
8 they're put in the form of a record requisition  
9 doesn't make them appropriate, but as I sit here I  
10 cannot assure you and Mr. Trotter that these are all  
11 the documents that we would have provided if we hadn't  
12 objected, so I would like to reserve an objection to  
13 this record requisition, and I will check and have  
14 something issued to Mr. Trotter and maybe we will have  
15 to bring it back on for your resolution later but I  
16 hope not.

17                   JUDGE CANFIELD: Record requisition is so  
18 noted for the record and with that understanding we'll  
19 proceed and parties can try to resolve and address  
20 those matters after the fact on a more informal basis  
21 if that will work or if not it may come back in a more  
22 formal matter. So noted.

23                   (Record requisition 3.)

24                   Q.     Could you turn to the response to public  
25 counsel request 01-008 and there we asked you to

1 describe your ultimate goals with respect to the prices  
2 of the specific services at issue, and I would like to  
3 focus on directory assistance or DA services. Am I  
4 correct that US West's ultimate pricing goal for DA is  
5 60 cents per billable call with one free call allowance  
6 per residence?

7 A. That is correct.

8 Q. You don't have any specific timetable for  
9 reaching that goal but this is where you ultimately  
10 want to be?

11 A. Yes, and we do have it in effect in quite a  
12 few states already.

13 Q. I believe Ms. Nownes has a chart showing  
14 what the rates are showing in other states. Should we  
15 pursue that with her?

16 A. Yes.

17 Q. U S West offers DA services wholesale to  
18 local exchange companies and interexchange carriers; is  
19 that right?

20 A. That is correct.

21 Q. Are those prices going to be increased if  
22 the Commission approves your proposal in this case?

23 A. You best ask Ms. Nownes but I don't believe  
24 so.

25 Q. Are those rates currently above or below



1 cost?

2 A. The interexchange carrier rates?

3 Q. And the LEC rates.

4 A. I don't know what the rates are today. I  
5 do know what the cost is but not knowing rates I can't  
6 tell you.

7 Q. Is it reasonable, in your opinion, to  
8 increase your retail rates for DA yet not raise your  
9 wholesale rates for DA if they are below cost? And  
10 that's an if.

11 A. If they were -- probably not, but the  
12 biggest difference is on the wholesale side. The  
13 carrier pays for every single DA call and on the retail  
14 side you have these allowances and yet they cost just  
15 the same amount of money, so your cost -- so, for  
16 example, if your wholesale rate was, let's say, 35  
17 cents for every call, every call gets that amount of  
18 money. If your retail rate is 35 cents but you only  
19 start billing after the fourth call so you don't --  
20 you've incurred expenses for five calls but you only  
21 get recompensed for one.

22 Q. But under your proposal there will only be  
23 one allowance call for residential?

24 A. That's right. So your cost recovery still  
25 doesn't incur on a per subscriber basis until the

1 third call is made, even under our proposal.

2 Q. Are you proposing that the test of whether  
3 you are recovering costs be done on a per subscriber  
4 basis?

5 A. No.

6 Q. Are you aware of U S West's ultimate goal  
7 with respect to its wholesale DA prices?

8 A. I've seen them but I don't remember them,  
9 but Ms. Nownes might. She would be better situated to  
10 do that than I.

11 Q. And would you turn to your response to  
12 request 01-004. This request asked you to indicate  
13 the competitive alternatives and provide their prices  
14 for all the services for which price increases are  
15 being proposed in these dockets. Also to indicate the  
16 geographic availability of the competing service; is  
17 that right?

18 A. That is correct.

19 Q. Focusing on your responses as relates to  
20 DA you stated, "The competitive alternatives for DA  
21 are the White Pages telephone books, telephone books  
22 published by others and other DA companies. USWC does  
23 not have prices for competitive services. Please see  
24 attachment A for the Bottom Line prices and geographic  
25 availability." Is that your response?

1           A.     Yes.

2           Q.     Now, with respect to White Pages telephone  
3 books -- with expanded EAS in U S West's territory, do  
4 subscribers get White Pages for their entire calling  
5 area provided free by the company?

6           A.     I believe they do. For example, I live in  
7 Renton and I get the Seattle book because that's part  
8 of my EAS area and I get it automatically so I believe  
9 that's true.

10          Q.     Is your understanding just based on your  
11 own personal?

12          A.     Yes, it is.

13          Q.     Telephone books published by others, these  
14 would be the competing publishers or did you have in  
15 mind other local exchange companies?

16          A.     It could be both, but if you get into a lot  
17 of detail, you probably want to ask Ms. Nownes. One  
18 example where I live, I also get a GTE directory that  
19 covers the whole east side, which I would -- and it  
20 has duplicate listings to what we provide.

21          Q.     Now, if I live in Seattle and wished to  
22 call someone in Arlington or let's make it Bellingham,  
23 in order to look in a telephone book I'm going to have  
24 to have a Bellingham telephone book most likely.

25          Would that be true?

1 A. That would be true. Or you could -- yeah.

2 Q. What would be my alternative?

3 A. Well, I was going to say you could go to  
4 the public library. A lot of times some libraries you  
5 can even call and they will look them up for you.

6 Q. In this filing, did you consider the impact  
7 on the public libraries of patrons calling them for  
8 directory assistance instead of the phone company?

9 A. I doubt it but you can ask Ms. Nownes.

10 Q. And with respect to other DA companies, I  
11 believe you referred us to Bottom Line, Inc.; is that  
12 right?

13 A. Yes.

14 Q. And your attachment was their application  
15 for registration which contained a proposed tariff; is  
16 that right?

17 A. That is correct.

18 Q. And they have an item in their tariff  
19 called directory assistance at 50 cents a call; is  
20 that right?

21 A. That is correct.

22 Q. Now, you didn't include their effective  
23 tariff, just the one they filed, correct?

24 A. That is correct.

25 Q. And then you referred us to that attachment

1 for the geographic availability. I read through it  
2 and I couldn't find any statement of geographic  
3 availability. Did you find it?

4 A. No. I probably made the assumption it was  
5 statewide, but, no, I don't have that, and again I  
6 don't know if Ms. Nownes might have more detail about  
7 them than I.

8 Q. And according to the attachment, bottom  
9 line, "will market and sell its services only to  
10 business subscribers." Did you read that?

11 A. I vaguely remember that, yes.

12 Q. Did you check to see whether a subscriber  
13 in Seattle, what they need to do to take advantage of  
14 the directory assistance service from Bottom Line?

15 A. I did not, no.

16 Q. Do you know whether or not Bottom Line  
17 resells U S West directory assistance?

18 A. I do not.

19 Q. If they did, is that an example of a  
20 competitive alternative in your mind?

21 A. If they resold it or if they even provide  
22 it, it's an example.

23 Q. How can they compete with you on price if  
24 they have to resell it at your --

25 A. I'm not sure they're using -- if they're

1 selling it for 50 cents with, I think it said, no call  
2 allowances they would already be above our prices.

3 Q. How do they compete with your prices?

4 A. Well, we need to raise ours so that we send  
5 them the right economic signals because ours are below  
6 cost.

7 Q. Is 50 cents above or below your cost, unless  
8 there's a confidential answer?

9 A. I think I can answer that generically. 50  
10 cents would be above our cost, assuming no call  
11 allowances, which I believe theirs has no call  
12 allowances.

13 Q. You talked a lot about pricing strategy in  
14 your testimony. Do you consider migration to other U S  
15 West West services in considering whether a price  
16 change is appropriate for a different service?

17 A. Yes. We have to look at how they  
18 interrelate with one another.

19 Q. And in the context of this case, did you  
20 consider whether increasing term loops, in a generic  
21 sense term loops, would move customers to other  
22 U S West services like flat business lines, for  
23 example?

24 A. I'm not sure. We need to ask -- have to  
25 refer you to Mr. Rees to answer that question on the

1 specifics.

2 Q. You indicated in response to a question  
3 from Mr. Harlow regarding -- he asked you about  
4 whether you knew market share data and you said you  
5 had no way to measure it?

6 A. Yes. How much they have, that's correct.

7 Q. Are you familiar with U S West survey data  
8 that measures market share?

9 A. Survey data. I'm familiar with that where  
10 I said we know what buildings have been passed. I'm  
11 not sure what survey data you're referencing.

12 MR. TROTTER: Those are all my questions.  
13 Thank you.

14 JUDGE CANFIELD: Concludes first round. I  
15 don't know if we've got any extensive redirect. We  
16 can take a break now or conclude the testimony of  
17 Ms. Owen and then take our break.

18 MR. SHAW: Let's finish up, Your Honor. I  
19 have no redirect.

20 JUDGE CANFIELD: Okay. That will answer  
21 that.

22 MR. BUTLER: Your Honor, could I ask one  
23 clarifying question? With respect to response to  
24 public counsel request 006 attachment A, there is a  
25 term C L A C S on one of the columns. Could you tell

1 me what that stands for?

2 THE WITNESS: I can't give you the exact  
3 acronyms but what it means is a customer at one  
4 location versus a customer that may have six different  
5 locations, this is just one per customer.

6 MR. BUTLER: Thank you.

7 JUDGE CANFIELD: With that, thank you,  
8 Ms. Owen. You're excused and let's take a break and  
9 come back at 10 after.

10 (Recess.)

11 JUDGE CANFIELD: We're back on the record  
12 now after our afternoon break and we're between  
13 witnesses, and allow Mr. Shaw to call his next  
14 witness.

15 MR. SHAW: Yes. Call Mr. Rees.

16 Whereupon,

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

20

21 DIRECT EXAMINATION

22 BY MR. SHAW:

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

25 A. Yes. My name is Gary Rees. I work with



1 U S West Communications Incorporated. My title is  
2 director of product and market issues and I'm located  
3 at 1600 Bell Plaza, which is in Seattle, Washington  
4 98191.

5 Q. Mr. Rees, did you prepare or have prepared  
6 under your direction what has been premarked for  
7 identification as your direct testimony T-2, Exhibit 3,  
8 which is qualifications and then Exhibit 4 relating to  
9 rate structures, Exhibit 5 being an excerpt from tariff  
10 and then confidential Exhibit 6, 7, 8 and 9?

11 A. That is correct.

12 JUDGE CANFIELD: 7 was not confidential.

13 MR. SHAW: I'm sorry, Your Honor.

14 Q. Exhibit 7 is not confidential, and that is  
15 an advice letter, advice No. 1838, Mr. Rees?

16 A. Yes. It is not confidential, Exhibit 7.

17 Q. Mr. Rees, at the break we passed out a  
18 couple of corrections that you wished to make first to  
19 Exhibit C-6. Do you have that in front of you?

20 A. Yes, I do.

21 Q. And you are changing the number as  
22 indicated on the pass-out on the second line of that  
23 exhibit, that as-of-1993 line?

24 A. That is correct.

25 Q. And directing your attention to Exhibit

1 C-9, are you making a percentage correction on the  
2 last column contribution below the fourth line?

3 A. Yes.

4 Q. With those two corrections, is your  
5 testimony and exhibits true and correct to the best of  
6 your knowledge?

7 A. Yes, they are.

8 MR. SHAW: Your Honor, I would move the  
9 admission of Mr. Rees's exhibits and tender him for  
10 cross with the corrections that we've noted on the  
11 pass-outs.

12 MR. TROTTER: Excuse me, Mr. Shaw. That  
13 last correction to C-9, did you say it was on the  
14 fourth line?

15 MR. SHAW: I was counting, Mr. Trotter,  
16 the sum line. There is one under 8 and 33 and a blank  
17 and then under 100 and then the correction is on the  
18 very next line.

19 MR. TROTTER: Okay.

20 THE WITNESS: Is that clear?

21 JUDGE CANFIELD: And in each instance the  
22 corrections are made in handwriting as opposed to  
23 typewriting?

24 MR. SHAW: Yes, Your Honor.

25 JUDGE CANFIELD: Any objection to the

1 offered exhibits?

2 Let the record reflect there are none.  
3 Exhibits T-2 through 5 are so entered. Those are  
4 nonconfidential exhibits.

5 (Admitted Exhibits T-2, 3, 4 and 5.)

6 JUDGE CANFIELD: Correct. Confidential  
7 Exhibit C-6 is entered, Exhibit 7 is entered.  
8 Confidential Exhibit C-8 is entered and corrected  
9 confidential Exhibit C-9 is entered into the record.

10 (Admitted Exhibits C-6, 7, C-8, C-9.)

11 JUDGE CANFIELD: With that Mr. Rees is  
12 available for cross.

13 MR. SHAW: Yes.

14 JUDGE CANFIELD: Mr. Trautman.

15

16 CROSS-EXAMINATION

17 BY MR. TRAUTMAN:

18 Q. Good afternoon.

19 A. Afternoon, Mr. Trautman.

20 Q. I would like to begin by turning briefly to  
21 Exhibit 3 of your -- to your testimony which is your  
22 witness qualifications statement?

23 A. Yes, sir.

24 Q. And turning to the third page, I believe it  
25 says that in 1986 to '87 you were responsible for the

1 cost analyses of private line services and all  
2 nonrecurring costs for the 14 states served by U S West  
3 Communications, correct?

4 A. That is correct.

5 Q. Are you responsible for policy as it  
6 regards the proposal to eliminate the term loop  
7 services?

8 A. Yes, sir.

9 Q. Why is the company proposing to eliminate  
10 them rather than just move them over to the private  
11 line tariff?

12 A. There were four reasons that I gave for  
13 moving these tariffs, primarily the term loop tariff,  
14 over to the private line. If I could refer you to  
15 those four reasons which are on page 7 of my testimony.  
16 We're proposing to move these to the private line  
17 tariff for principally the fact that these services are  
18 below long-run incremental cost. There are some  
19 exceptions to that, and I will get into it. We also  
20 want to eliminate prices that are not consistent with  
21 the functionally and technically equivalent service  
22 that are over on the private line tariff.

23 Thirdly, we indicate that we wanted to put  
24 these services into a new format so that the rate  
25 structure fits the manner in which the product is

1 provisioned and costs are incurred, and finally to  
2 establish a rate structure which is consistent  
3 throughout the U S West region.

4 Q. Why did the company decide not to study the  
5 costs specific to term loop services?

6 A. U S West did study the costs of term loop  
7 services in that term loop services are technically and  
8 functionally the same as those services in private  
9 line. Whenever a terminal loop is ordered it is a  
10 provisioned and installed just like the private line  
11 service that it mirrors. So when you study the private  
12 line cost as have been shown in this case, you really  
13 in effect have studied the costs of terminal loops.

14 Q. But did you study the terminal loop costs  
15 separately? Did you do a separate study of those?

16 A. The terminal loop study was included, if  
17 you will, with the private line transport service  
18 studies that Ms. Santos-Rach has sponsored.

19 Q. So did you just assume that the term loop  
20 costs would be the same as the private line cost?

21 A. No. I'm not assuming they're the same. I  
22 know they're the same because they are the same  
23 service.

24 Q. Turning to Exhibit 20 which was previously  
25 entered. Do you have a copy of that with you?

1           A.     No, I don't have one.

2                    JUDGE CANFIELD:  For the record, Mr. Shaw  
3 has provided the witness with a copy of Exhibit 20.

4           Q.     And this was a three-page cover sheet of  
5 the filing for the 1987 private line tariff case.

6           A.     Where in this document does it talk about  
7 the private line?  I haven't been able to find that  
8 real quickly.

9           Q.     Let me correct, this was a filing that  
10 established the five-line definition for determining  
11 the rate for complex lines in Washington.  Do you  
12 recognize that?

13          A.     Yes.  I recognize it as an advice letter.  
14 I don't see anything in here that talks about private  
15 line services, but --

16          Q.     Do you recognize it as establishing the  
17 five-line definition for complex lines?

18          A.     Yes, sir.

19          Q.     And that, for the record, is on roughly the  
20 eighth line from the bottom.  It states that complex  
21 lines are defined as part of a telephone system  
22 consisting of five or more lines per customer per  
23 building.  Can you tell me, prior to the definition of  
24 complex lines, how the PBX and key lines were defined  
25 and rated, if you know?

1           A.     I'm not an expert in that area at all, Mr.  
2 Trautman, so I will have to pass on that.

3           Q.     You were not familiar with that from your  
4 responsibility for cost analysis of private line  
5 services in 1986 and 1987?

6           A.     You were specifically talking about the  
7 rates for the PBX and complex lines?

8           Q.     Uh-huh.

9           A.     I did not do any prices, should say cost  
10 studies, in that area.

11          Q.     You indicated that you were responsible for  
12 the term loop and the private line cost studies that  
13 were produced for use in the hearings that were held  
14 in dockets I believe it was U-87-796 and 799?

15          A.     If those cost studies were done during the  
16 time I was there, they would have been used, that's  
17 correct.

18          Q.     Are you familiar with the current -- it's  
19 called an RLCAP, Regional Loop Cost Analysis Program,  
20 private line cost study that was provided to staff or  
21 is that something that Ms. Santos-Rach would be  
22 familiar with?

23          A.     I recognize the name but I don't have any  
24 details on it, and Ms. Santos-Rach is the expert in  
25 that area.

1 Q. Is it correct that in 1987 that the price  
2 of a term loop was \$3.35?

3 A. I believe that is correct.

4 Q. And I believe this would be contained in  
5 your Exhibit 7 to your testimony?

6 A. That's correct.

7 Q. And the company proposed that it be raised  
8 from \$3.35 to \$6 back in 1987; is that correct?

9 THE WITNESS: May I have just a second to  
10 look through this particular statement?

11 JUDGE CANFIELD: Go ahead.

12 A. That's correct, sir.

13 Q. So the term loop price was raised in that  
14 case to the \$6 that the company requested, correct?

15 A. I believe the effective date of that raise  
16 was in 1988 after the conclusion of the case.

17 Q. And the company indicated back in 1987 that  
18 it planned to bring the term loop cost up -- term  
19 loops up to cost in the future?

20 A. Yes.

21 Q. So why did the company wait seven years  
22 after making that statement to make this filing?

23 A. There is probably a number of reasons for  
24 that, and I wish I could list them all for you, but  
25 when we went into a situation in an agreement with the



1 Washington Commission with AFOR, auto form of  
2 regulation, we were initially required, I believe, in  
3 the first AFOR for a reduction of about \$65 million,  
4 and most all of the agreements in the AFOR have been  
5 for reductions rather than increases, so there  
6 probably just hasn't been a very good opportunity for  
7 us to move these tariff rates up, although I should  
8 say they should have been raised.

9 Q. Were term loop services included as part of  
10 the private line cost study or was it assumed that the  
11 term loop costs would be the same as the private line  
12 costs?

13 A. In 1987, sir?

14 Q. Yes.

15 A. I can't tell you whether or not those were  
16 studied separately or a part of the private line  
17 transport service -- tariffs -- services, excuse me.

18 Q. So are term loop costs included in the  
19 current private line cost study?

20 A. Yes, they are.

21 Q. In the present case, the company is  
22 contending that at least one of the reasons that term  
23 loops need to be eliminated is because of competitive  
24 concerns; is that correct?

25 A. Yes.

1 Q. Are you aware that in 1988 the company  
2 applied for competitive classification of all of its  
3 private line services?

4 A. I'm vaguely aware of that, yes, sir.

5 Q. If the company perceived itself to be in a  
6 competitive situation in 1988, then why didn't it make  
7 the term loop filing at that time?

8 A. I tried to explain that in my previous  
9 answer. The basic reason, there weren't a whole lot of  
10 opportunities for us to raise rates under the  
11 alternative form of regulation where most of our  
12 requirements were to reduce rates.

13 Q. Now, I believe you make reference in your  
14 testimony to functional equivalents of services. It's  
15 within the discretion of the Commission to permit  
16 separately tariffed services even though the services  
17 may be functionally equivalent, is it not?

18 A. If the Commission chooses to do that, I'm  
19 sure they can.

20 Q. Could you turn now to your Exhibit 4 to  
21 your testimony.

22 A. I have that.

23 Q. I believe this is a diagram of terminal  
24 loops and private lines and at the top it says "rate  
25 structures."

1           A.       That is correct.

2           Q.       Would it be correct to say that the  
3 illustration that you have in Exhibit 4 is an example  
4 of an interoffice as opposed to an intraoffice  
5 circuit?

6           A.       Both of these show interoffice. The reason  
7 why I selected this is that it shows all elements, the  
8 NAC, the transport mileage, the channel performance.  
9 If I were to show a terminal loop wholly within an  
10 exchange, then I wouldn't have been able to comment on  
11 the equivalency between the mileage per quarter mile  
12 that I show for terminal loops versus the transport  
13 mileage in the private line.

14          Q.       Now, turning to Exhibit C-9 and speaking  
15 generally, that exhibit shows the quantities of the  
16 various term loop circuits, correct?

17          A.       Yes, it does.

18          Q.       Do you know how many of the term loop  
19 service applications that are shown on that exhibit  
20 are interoffice versus intraoffice circuits?

21          A.       The figure down at the bottom for mileage  
22 circuits would include interoffice mileage. So there  
23 is a number there for those circuits. From that I  
24 would suggest that we would reduce by the number of  
25 circuits that are labeled as Centrex.

1 Q. So would you agree, then, that most of the  
2 circuits do not have mileage associated with them?

3 A. There's a good share of them that have some  
4 mileage with them. If we look at the numbers -- I'm  
5 referring to the appearances, if you will, on the far  
6 left-hand column and we can compare that to the  
7 interoffice circuits that are shown which were the  
8 1LXBs down in the mileage area -- you could see that  
9 there are a fairly significant number of interoffice  
10 mileage circuits involved.

11 Q. Would you agree that approximately 60  
12 percent of the term loop circuits are intraoffice?

13 A. I don't have that percentage, but subject  
14 to check, yes.

15 Q. How, then, would your Exhibit 4 demonstrate  
16 that term loops and private lines are functionally  
17 equivalent when most of the term loops don't have  
18 interoffice mileage?

19 A. Let's look at the Exhibit 4 together, and I  
20 will try and explain where the equivalency is. For  
21 the moment let's think about an interoffice circuit.  
22 We can see that the term loop nomenclature on the top  
23 line is equivalent to the NAC, and I might add, with  
24 the notation that channel performance in the central  
25 office would make those two equivalent.

1                   If we look at the other end of the circuit  
2 where we have the term loop and the customer on the  
3 top line and then we look at the lower line, we see  
4 the NAC with the channel performance in the central  
5 office, so -- and those are equivalent. So now we  
6 have two segments of the circuit are the same. And  
7 then we look at the center segment, which is the  
8 interoffice mileage portion, and it's nothing more than  
9 the distance between the two central offices, the  
10 airline mileage. For those particular circuits that do  
11 not go through a central office then we can look at  
12 either the central office end -- excuse me, on the  
13 customer end from the left toward the central office  
14 and compare that with the NAC down below, and you can  
15 see that those are equivalent as well.

16           Q.       So the diagram then applies to the 40  
17 percent of the circuits that are interoffice?

18           A.       Sir, my explanation must not have been very  
19 clear. What I was trying to say is that this would  
20 apply to all terminal loops. I've tried to encompass  
21 in this one diagram all types of terminal loops. The  
22 terminal loop that goes between a customer's premises  
23 and the central office is the equivalent to the  
24 customer's location in the lower private line diagram,  
25 the NAC that goes to the central office in the channel

1 performance. So that would apply to those intraoffice  
2 circuits. If we were to look at the entire diagram  
3 that would apply to the interoffice circuits.

4 Q. Using your Exhibit 4 illustration, as it  
5 would apply to an intraoffice dedicated facility, would  
6 you then agree that Centrex NACs would also be  
7 considered to be a dedicated intraoffice facility?

8 A. A Centrex NAC is more than a NAC as such. I  
9 believe that's a term that has been used in the recent  
10 Centrex filing. What I'm referring to here is the  
11 network access channel of private line, and I don't  
12 want to confuse it with the Centrex station line that  
13 the Centrex NAC refers to. They're really two  
14 different services.

15 Q. So you would consider the Centrex NAC not  
16 to be a dedicated intraoffice facility?

17 A. The Centrex NAC goes from the central office  
18 to a station, but it is a switched service at that  
19 point so I would not say that it was the same.  
20 Terminal loop and these private line NAC are dedicated  
21 nonswitched services.

22 Q. So then it's being a switched service that  
23 makes it functionally different?

24 A. If it's a switched service I would not call  
25 it a private line. Private line, as I stated before,

1 would be a dedicated between the customer's premises  
2 and the central office. It would be nonswitched.

3 Q. Would a Centrex NAC be a dedicated  
4 facility?

5 A. It would be dedicated from the central  
6 office to that customer's premises, I agree with that.  
7 It is switched, however.

8 Q. So then again for clarification, is  
9 switching the only feature that would prevent you from  
10 putting the Centrex NAC into the private line tariff?

11 A. If I were to put the Centrex NAC into the  
12 private line tariff, I would like to do a lot more  
13 study on it, but I believe the Centrex NAC includes  
14 all the channel performance that's required for that  
15 one loop. It is switched. So it doesn't fall under  
16 the same structure as we have currently in the private  
17 line, and what I would like the terminal loops to look  
18 like in the tariff.

19 Q. Considering then for another example a one  
20 flat rate, a 1FB business line or a complex business  
21 line, would you consider them to be a dedicated  
22 facility?

23 A. A dedicated facility to a particular  
24 customer's premises? Is that the question, sir?

25 Q. Dedicated in the sense that it would look

1 like the intraoffice example that you have on  
2 Exhibit 4.

3 A. No. The difference would be that the 1FB  
4 would be a switched service.

5 Q. So, again, the switching is the  
6 distinguishing factor?

7 A. Yes, sir.

8 Q. Did the company consider tariffing the term  
9 loops in the private line tariff as a separate service  
10 rather than as a private -- let me just cut back. Did  
11 the company consider tariffing the term loops in the  
12 private line tariff as a separate service?

13 A. No, and the reason we didn't because that  
14 would continue to perpetuate this inconsistency or  
15 pricing anomaly. We would have two services with  
16 different prices so we would not have achieved what we  
17 wanted to do with this filing.

18 Q. Does U S West in other states list  
19 off-premises extensions as a separate rate element in  
20 their private line offerings?

21 A. In other states it's considered as a VG 32  
22 facility. It's a nonswitched dedicated facility  
23 that's normally classified as a VG 32. That's the PBX  
24 off-premises extension. Washington is the only state  
25 that we have where there are separate tariffs for



1 terminal loops.

2 Q. You indicated, again, I believe that in 1986  
3 and in 1987 you were responsible for cost analyses of  
4 private line services and nonrecurring costs of 14  
5 states served by U S West?

6 A. Yes, I was, sir.

7 Q. Are you familiar with any of the testimony  
8 of Dale Thompson in the -- I believe this was the  
9 private line case in 1987?

10 A. Mr. Thompson worked in my organization. I  
11 left that group before the case started, so Dale was  
12 not working for me at the time he was testifying, but  
13 I have seen his testimony.

14 Q. Were you familiar with the company's  
15 position at that time that some of the term loop  
16 applications might have to stay in the exchange tariff  
17 and that the company was going to have to look at that  
18 quite carefully?

19 A. I believe the rationale was that we will try  
20 and raise the terminal loop rates closer to cost, and  
21 at that time we notified all the parties, as well as  
22 the Commission through our filing, that this was just  
23 the first step toward desiring to move the terminal  
24 loops into the private line tariff.

25 Q. So do you know whether there were some

1 services that were going to have to be looked at to  
2 see if they should stay in the -- stay out of the  
3 private line tariff and in the exchange tariff?

4 A. Well, sir, at that time all of those  
5 services stayed out of the private line tariff. There  
6 was only an attempt to try and increase the price to  
7 get closer to cost. I don't believe any of the  
8 services in term loop were moved to the private line  
9 tariff at that point.

10 Q. Did the company conduct any formal review  
11 of the need to keep some of the services in the term  
12 loop tariff, if you know?

13 A. I'm not aware of any specifically.

14 Q. You don't know or you're saying --

15 A. I was not aware of any studies that were  
16 performed. Again, we were working on the cost side  
17 and if there were changes it may have been done by  
18 product management or so forth or studies. I'm just  
19 not aware of them.

20 MR. TRAUTMAN: Your Honor, we would like to  
21 make a record requisition of any documents that may  
22 have been done as part of a formal review of the need  
23 to keep some of the services in the term loop tariff  
24 if such a study were done or such a review were done.

25 MR. SHAW: In what time frame, Counsel?

1           MR. TRAUTMAN: It would be in the time  
2 frame subsequent to the Commission's order in the case  
3 that's referred to, the private line case which was  
4 U-87-796 and U-87-799.

5           A.     You're specifically looking for studies  
6 that were made to analyze whether or not to keep some  
7 services in the term loop tariff?

8           Q.     That's correct.

9           JUDGE CANFIELD: Okay. That's record  
10 requisition No. 4 and a response one way or the other  
11 on that I assume is in order.

12                     (Record requisition 4.)

13          Q.     Turning now to your testimony, if you could  
14 turn to page 6, on lines 18 to 20. And the question  
15 there was, "If a terminal loop or if a customer  
16 desires a different channel performance capability  
17 than what is provisioned for the customer currently,  
18 what options will a customer have?" Can you tell me  
19 what channel performance capability is provisioned for  
20 the customer currently?

21          A.     If you could tell me what the particular  
22 product is the customer had at the end, we could  
23 figure that out. I might need some help of the  
24 circuit provisioning center to do that.

25          Q.     Does your response to the question on page

1 6, does that mean -- and the responses is, "A customer  
2 may choose from a variety of channel performance  
3 capabilities as defined in the private line transport  
4 service tariff." Does this mean that if the customer  
5 is currently provisioned with some sort of conditioning  
6 today -- if the customer line is currently conditioned  
7 -- that the customer will not be required to purchase  
8 conditioning under the private line tariff?

9 A. If this tariff proposal is accepted?

10 Q. Yes.

11 A. If the customer is currently receiving or  
12 has channel performance type of conditioning on their  
13 line, that channel performance will be charged under  
14 the private line transport service tariff going  
15 forward.

16 Q. Can you turn back now to Exhibit 20 in this  
17 case, which was the letter of August 20, 1987?

18 A. Yes, sir.

19 Q. And turning to page 2, and it's the second  
20 paragraph which deals with line conditioning, and it  
21 refers to "line conditioning being unbundled," and  
22 then it states that "existing PBX customers with  
23 conditioned trunks in place will have this feature  
24 grandfathered on their accounts (no recurring rate will  
25 apply)." Did you consider grandfathering in the

1 present case?

2 A. No, sir.

3 Q. Why not?

4 A. The conditioning that's being discussed  
5 here, I believe, is somewhat different than the  
6 private line conditioning which would be channel  
7 performance. At this point I'm not exactly sure what  
8 conditioning they are referring to, but it deals with  
9 the PBX trunks itself as opposed to any dedicated  
10 nonswitched service that I'm dealing with here in the  
11 private line transport service tariff.

12 Q. Could you go back now to Exhibit C-8 to  
13 your testimony.

14 A. Yes, sir.

15 Q. Looking at the second page, and looking at  
16 the -- it would be the off-premises extension  
17 quantities in the proposed USOC column. Do you see  
18 that column and the quantity column for proposed USOC  
19 and --

20 A. Yes, sir.

21 Q. And it's the quantity of the line  
22 conditioning USOC equals the number of the off-premises  
23 PBX loops; is that correct?

24 A. That is correct. You're talking about  
25 off-prem PBX service. The category at the top of the

1 page?

2 Q. Yes.

3 A. There's another off-prem station category  
4 below and I want to make sure we're together.

5 Q. Right. We're talking about off-prem PBX.

6 A. Yes, sir, I have that.

7 Q. And your answer was yes. Does that mean  
8 that each off-premises extension requires line  
9 conditioning?

10 A. Each of the NACs in this case, which would  
11 be the off-prem PBX extension, which would be the  
12 1DC2X, does require some sort of channel provisioning.  
13 And the channel provisioning is the PCWAX through the  
14 PGAWHX.

15 Q. How did the company determine that all PBX  
16 customers require the proposed various services that  
17 are shown in the proposed USOC column?

18 A. The existing customers have a particular  
19 USOC associated with their installation currently.  
20 That's shown in the second from the left column. If  
21 you will notice the 1LXBJ, which is a term loop,  
22 equates to the 1DC2X, which would be the NAC. Below  
23 that is a demonstration of an SAL, an SAU and an SAY.  
24 That deals with the various ports of a PBX which will  
25 then indicate what channel performance is required for

1 that particular loop.

2 Q. Is it correct that the Commission service  
3 quality rule -- and that's enacted in the WACs -- is  
4 it correct that that rule requires no greater than a  
5 five DB loss at a 1,004 megahertz at a term loop  
6 off-premises extension circuit?

7 A. That is correct. That's in all of the  
8 practices that we develop our engineering to for these  
9 particular circuits. It's generally referred to  
10 nominally as a 4DB circuit. The outer limit is a  
11 minus 5, as you described.

12 Q. Is it then your testimony that a term loop  
13 off-premises extension will not work even though the  
14 circuit is in compliance with the Commission service  
15 quality rule unless line conditioning is applied to the  
16 circuit?

17 A. Certainly a possibility because of the fact  
18 that if you do need signaling and if it's running over  
19 a carrier system, it just simply won't work. So you  
20 do need to have line conditioning. You have to have  
21 this type of equipment on the particular circuit to  
22 make it work. There's more than just transmission  
23 capability, which you were describing when you talked  
24 about the 5DB. There's also the analogy requirement.  
25 And that's part of the particular channel performance

1 element that we have.

2 Q. Are you familiar with the CTEC cost study?

3 A. Ms. Santos-Rach has indicated to me that  
4 that's part of the studies that they performed, but I  
5 really can't tell you how it works. I would have to  
6 defer that question to her.

7 Q. In your answer to the previous question  
8 prior to the CTEC question, I believe you said that  
9 some circuits might not work unless they had line  
10 conditioning but that others would work; is that  
11 correct?

12 A. If the customer wants to guarantee that they  
13 will work, they have to have the line conditioning, so  
14 the answer would be yes, you do have to have the  
15 channel performance.

16 Q. Turning to Exhibit C-8 to your testimony.

17 A. Excuse me, sir?

18 Q. Turning to Exhibit C-8 on page 2 of your  
19 testimony?

20 A. Yes, sir.

21 Q. And there is a line -- there's a line  
22 titled Centrex?

23 A. Yes, sir.

24 Q. Why is there no USOC associated with the  
25 line under the column titled Present USOC?



1           A.       Currently there is no charge levied for the  
2 channel performance that is required for these  
3 particular interoffice circuits.  What we are  
4 proposing is that there be a channel performance charge  
5 made for the work that is actually done when the  
6 circuit is interoffice.

7           Q.       Does the lack of a USOC mean the customer  
8 does not currently pay anything even for the line?

9           A.       No.  The customer certainly pays for the  
10 line but does not pay for any channel performance that  
11 is performed on that particular line.

12          Q.       Does Centrex mean a Centrex off-premises  
13 extension?

14          A.       In this particular case it would be a  
15 Centrex station line that has an interoffice leg to  
16 it.  There is no channel performance required when the  
17 Centrex station line is served out of the same central  
18 office where the Centrex is purchased.  In this  
19 particular case, we're dealing with Centrex stations  
20 that are in a different central office than where the  
21 Centrex is actually located.

22          Q.       On the same exhibit, same page, under tie  
23 lines, looking at the proposed USOC, it would be  
24 PCWKX, the proposed monthly rate is shown as \$12.50,  
25 correct?

1 A. That's correct.

2 Q. Now, looking at Exhibit C-9, under tie  
3 lines, what is the rate shown there?

4 A. The rate shown there is \$25 to indicate  
5 that there are two that are required. 2 times 12.50  
6 is \$25.

7 Q. Now, looking at Exhibit 5 to your testimony  
8 -- do you have Exhibit 5?

9 A. Yes, sir.

10 Q. On the first sheet, on the second line from  
11 the bottom, it says E&M signaling. That has a USOC  
12 PCWKX and a rate of \$27; is that correct?

13 A. That's for a voice grade 8 line. Is that  
14 where --

15 Q. Voice grade 3. It's on the first page.  
16 Second line from the bottom.

17 A. Yes, sir.

18 Q. Why is there the discrepancy between \$25  
19 and \$27?

20 A. It's not a discrepancy, sir. It's a  
21 different class of service.

22 Q. Even though they had the same USOC?

23 A. That is correct.

24 Q. Where is the \$25 located on the tariff  
25 sheet?

1           A.     The \$25, as I said, represents the fact  
2 that there's two channel performances required.

3           Q.     And where is the \$12.50?

4           A.     The \$12.50?

5           Q.     Yes.

6           A.     Would you like me to cite where it is in  
7 the tariff?

8           Q.     Yes, sir.

9           A.     It's shown on C-8 as \$12.50.

10          Q.     Would it be under VG-33 in the tariff?

11          A.     Under tie lines. Tie lines are VG-33,  
12 correct.

13          Q.     Going back now to Exhibit C-9, the cost for  
14 the PCWKX USOC is greater than the rate shown next  
15 to it; is that correct?

16          A.     That's correct.

17          Q.     And the same situation of below cost rates  
18 exists for the following USOCs, PCWCX, PJWFX, and  
19 PJWMX; is that correct?

20          A.     I'm having trouble finding the PJMWMX, was  
21 it, sir? I have it. That's under the foreign central  
22 office service. That's correct.

23          Q.     If one of the premises upon which the  
24 filing was made was that the rates for the services  
25 should be set above costs, why has the company not

1 proposed any adjustment to those rates?

2           A.     I'm attempting to set the prices for the  
3 entire service in this particular case. Let's take  
4 the FCO service where we just looked at the PJMWX, the  
5 cost was \$4.63 and we have a rate of 10 cents, and the  
6 PJWFX which is USOC right above that, has a cost of  
7 \$6.46 and we have a rate of 10 cents. But you will  
8 notice that the NAC which is the 1DC2X that's shown  
9 below is proposed at \$9 while the cost is zero. When  
10 you add the total costs and compare to the total price  
11 for that particular service, you will notice that there  
12 that there is a contribution being provided, and you  
13 can see what that contribution is in the far right-hand  
14 column. So it is above cost.

15                 MR. TROTTER: Your Honor, just for the  
16 record, what is it about this exhibit that's  
17 confidential? Is it the quantities, Counsel? He's  
18 already read cost data. I was wondering whether that  
19 was --

20                 THE WITNESS: Hopefully we're talking to  
21 people that are all --

22                 MR. SHAW: Your Honor, the witness should  
23 not have read those individual cost elements. I  
24 didn't interrupt because I was hoping he was going to  
25 read a couple of them.

1 THE WITNESS: They've been read now, sir.

2 MR. SHAW: The rest of it is considered  
3 proprietary, the cost data, and obviously we've waived  
4 it as for those ones that have been read. It was  
5 simply a matter of not communicating to the witness  
6 this wasn't a closed hearing. I don't think he totally  
7 understood that.

8 JUDGE CANFIELD: With that clarification,  
9 let's proceed then.

10 Q. When a customer buys the three services you  
11 refer to as PJWFX, PJWMX and 1DCZX --

12 A. That should be -- that Z should be a 2.

13 Q. 1DC2X.

14 -- does the customer purchase those  
15 separately or together?

16 A. The customer would buy the 1DC2X as the  
17 NAC and would have either the PJWMX or the PJWFX to go  
18 with it, one or the other, not both. The rule of  
19 thumb is for each NAC there is one channel  
20 performance.

21 Q. So that the company's position then is that  
22 it is fine to serve or to sell one element below cost  
23 as long as the total package is above cost?

24 A. What we're trying to achieve is to have the  
25 price for the service above cost. In this particular

1 case that's what this achieves, yes.

2 Q. But the prices for the rate elements don't  
3 have to be above their cost?

4 A. In total they must be above cost;  
5 individually, not necessarily above cost. What I'm  
6 pricing is the package, in effect.

7 Q. Should questions dealing with nonrecurring  
8 costs be referred to you or to Ms. Santos-Rach?

9 A. All cost questions I think would be best  
10 directed at Ms. Santos-Rach.

11 MR. TRAUTMAN: No further questions.

12 JUDGE CANFIELD: Ms. Frickelton?

13 MS. FRICKLETON: No questions.

14 JUDGE CANFIELD: Mr. Nettleton, any  
15 questions?

16 MR. NETTLETON: Not of this witness.

17 JUDGE CANFIELD: Mr. Kahn?

18 MR. KAHN: Your Honor, the city does have  
19 some questions. Ms. Arnold will be representing the  
20 city with respect to this phase of the questioning.

21

22 CROSS-EXAMINATION

23 BY MS. ARNOLD:

24 Q. Hello, Mr. Rees.

25 A. Good afternoon, Ms. Arnold.

1 Q. Am I correct that a terminal loop customer  
2 today is served from schedule 12?

3 A. That's correct.

4 Q. Under the access tariff; is that right?

5 A. No, under the exchange tariff.

6 Q. Thank you.

7 A. WNU-24.

8 Q. And the recurring rate for each loop under  
9 that tariff is \$6; is that correct?

10 A. That is correct.

11 Q. In addition, does the term loop customer  
12 pay for trunk lines?

13 A. If they have trunks, yes.

14 Q. Now, looking at Exhibit No. 5, which is  
15 your GAR-4, I believe that you told Mr. Trautman  
16 that the person -- that the customer who is now  
17 getting terminal loop service who is now referred to  
18 the private line tariff will have to select one of  
19 these types of service to fit the type of equipment at  
20 his terminal; is that correct?

21 A. We'll help the customer determine what that  
22 should be.

23 Q. Well, that was my question. Who will  
24 decide what the level of service will be?

25 A. If it's a PBX that the customer has on

1 premises -- we're assuming a new installation now --  
2 and the customer comes to us and indicates that they  
3 want to hook that up with some off-premises extensions,  
4 we have to determine with the customer what type of  
5 equipment is going to be necessary to make that  
6 off-premises extension work.

7           Each of the PBXs that are installed or  
8 purchased today have a set of criteria that come with  
9 it. In that criteria our provisioner will be able to  
10 help the customer find the particular codes that will  
11 indicate what type of transmission performance  
12 capabilities are required, so we will help the  
13 customer if the customer does not have the expertise  
14 to know what type of channel performance is required.

15       Q.     Now, on your Exhibit No. 9 where you list  
16 the rates and costs for channel performance, you seem  
17 to list rates only for voice grade 32 and voice grade  
18 33; is that right?

19       A.     Basically those are all of the voice  
20 services that are in the private line tariff and those  
21 voice grade services will include many more channel  
22 performances than perhaps are listed here, but for the  
23 particular types of services that we have in service  
24 now, this would cover the requirements.

25       Q.     Those voice grade 32 and 33 appear on sheet



1 17. Would you turn to that page.

2 A. Sheet 17 of --

3 Q. I'm sorry, of GAR-4, which is Exhibit 5.

4 A. Yes, I have that.

5 Q. Is this the currently effective private  
6 line transport services tariff or --

7 A. These rates are in the currently -- the  
8 current tariff. We should indicate, however, this is  
9 the WNU-28 which is a rewrite of the current tariff  
10 that now is in existence.

11 Q. But the rates are the same?

12 A. Absolutely.

13 Q. So, for example, a terminal loop customer  
14 such as the city of Bellevue will now be referred to  
15 this sheet 17 to determine its rates; is that correct?

16 A. This will be the place where they could  
17 find the rates for the various USOCs, correct.

18 Q. If a particular circuit requires voice  
19 grade 32 loop start signaling type LG, would the  
20 monthly rate then be \$18.15?

21 A. Yes, it would.

22 Q. That would be --

23 A. That would be the channel performance for  
24 that particular loop.

25 Q. And in addition, would that particular

1 group, the city of Bellevue, have to pay mileage rates  
2 on top of that?

3 A. Not necessarily. What the installation  
4 would require would be a NAC, the loop itself that  
5 goes between the central office and the off-prem  
6 station -- and that's a \$9 charge for the NAC and  
7 then they would require a channel performance depending  
8 on what capability the PBX has.

9 Q. So you're saying that -- let's say this is  
10 the Bellevue city hall now pays \$6 for the loop. In  
11 the event that your proposal is approved they'd be  
12 paying \$18.15 for channel performance plus \$9 for the  
13 NAC?

14 A. If you would turn to my Exhibit C-9 you  
15 will see what the rates are that would be paid for an  
16 off-premises PBX extension.

17 Q. I'm afraid that doesn't help me very much.  
18 Is this rate going to be \$18 a month if this  
19 off-premises PBX is USOC 1LXBJ?

20 A. Let's assume -- let's go into this in more  
21 detail then. If the PBX is located in the same wire  
22 center as the off-prem station --

23 Is that a good assumption?

24 Q. Right.

25 A. -- there would be one loop between the PBX

1 and the central office, which is a \$9 charge. There's  
2 an additional loop between the CO and the off-prem  
3 station, which is a \$9 charge, and if you look here it  
4 says the 1DC2X which is that loop, or the NAC, that  
5 would be \$18. For each of the NACs, there would be a  
6 requirement for channel performance, and the channel  
7 performance for -- let's see, let's take the  
8 PCWAX, which would be the least powerful of the PBXs.  
9 There would be a \$17 charge for the loop that goes  
10 between the PBX and the central office, and then for  
11 the loop that goes between the central office and that  
12 off-prem station there would be a channel performance  
13 charge of \$10.50.

14 Q. Now I'm trying to add this up as you go and  
15 I come to \$45; is that right?

16 A. It would probably be \$45.50 and that's what  
17 those figures show below the line for an off-prem PBX.

18 Q. So would the rate for city hall go from \$6  
19 to \$45 per month?

20 A. In that particular case it would. If it  
21 was a different type of PBX that had stronger  
22 capability then it perhaps would be as low as \$38.50.

23 Q. The city of Bellevue doesn't have the  
24 option of looking at rate sheet 17 and saying, for  
25 example, I want voice grade basic no signaling for \$9

1 -- or for \$1.50 instead of what you just described for  
2 \$45, isn't that correct, unless they get new  
3 equipment?

4 A. The customer could order anything they  
5 wanted but we would have to tell them that it wouldn't  
6 work very well, if at all, with that particular channel  
7 performance.

8 Q. So they could pay the \$1.50 but it wouldn't  
9 work?

10 A. That would be my guess.

11 Q. Now, will the city of Bellevue in addition  
12 be required to pay the nonrecurring charge when they  
13 become customers under the private line transport  
14 services tariff?

15 A. The nonrecurring charge is charged when the  
16 customer first installs that particular loop and since  
17 that's already in place there would be no nonrecurring  
18 charge for the city of Bellevue for that particular  
19 loop.

20 Q. Would you agree that a rate increase from  
21 \$6 to \$45 a month is a substantial increase?

22 A. Yes, I would. It also takes the service  
23 finally up to cost.

24 Q. Look, please, at Exhibit 9 which is GAR-8.  
25 Under the mileage rates?

1 A. Yes.

2 Q. Now, am I right that the present rate for  
3 USOC 1LXBR is \$1.35 for everything from zero to eight  
4 miles?

5 A. The \$1.35 is a per-quarter-mile figure.

6 Q. So that would be approximately -- again I'm  
7 multiplying fast here -- about \$5.40 per mile or  
8 thereabouts? Did I add wrong?

9 A. That sounds fairly close. Yes, it is.

10 Q. So if the city of Bellevue is required to  
11 pay mileage rate, will its rate go from about \$5.40  
12 per mile to \$30.95 per mile?

13 A. That would be part of the mileage charge.  
14 Then you would have to add the per mile charge also to  
15 that figure. There's a fixed and a per mile element  
16 for mileage. If you look at C-9 you will see under  
17 proposed USOC fixed and per mile.

18 Q. So he'll have to pay -- city hall will have  
19 to pay \$30.95 plus \$2.05?

20 A. For each mile.

21 Q. So their rate is effectively going from  
22 \$5.40 per mile to \$33 per mile; is that correct?

23 A. In the particular situation that you've  
24 outlined, I believe that's correct.

25 Q. Now, this morning Ms. Owen testified, and I

1 believe it's in her prefiled testimony, that there  
2 were three pricing considerations that U S West  
3 considers when setting rates. Were you here for her  
4 testimony this morning?

5 A. Yes, I was.

6 Q. The first that she mentioned was  
7 competition. Did you consider competition in  
8 considering the impact of the rate change on the  
9 terminal loop customers?

10 A. The consideration for the terminal loop  
11 price changes was strictly one of getting these  
12 particular elements up to cost or above.

13 Q. So you didn't consider competition then?

14 A. That wasn't an element of our decision, no.  
15 Although I must admit that all of my private line  
16 services are considered competitive.

17 Q. We'll get to that in just a minute. She  
18 also said another consideration is a perceived value  
19 to the customer. Did you consider that in proposing  
20 this rate change for the terminal loop customers?

21 A. The consideration I had in all of these  
22 elements that I am involved with was to get the  
23 service up to cost or above.

24 Q. Now, you discussed with Mr. Trautman that  
25 certain types of service are actually being offered at

1 something below cost. Without getting into the  
2 nonconfidential/confidential information again, how  
3 did you decide which of these varieties of service to  
4 price at below cost?

5 A. In the particular discussion that I had  
6 with Mr. Trautman we were talking about the package  
7 for foreign central office service, and there I  
8 pointed out that the package itself is above cost.  
9 Our attempt here is to price everything at cost or  
10 above. In particular cases such as this one, foreign  
11 central office, the package as a whole is what we  
12 priced above cost.

13 Q. Turn now, please, to Exhibit 8 which is a  
14 confidential exhibit.

15 A. Thank you.

16 Q. You list an elasticity factor and I don't  
17 know if that factor itself is confidential or not.

18 MS. ARNOLD: Maybe Mr. Shaw could help us on  
19 that. Is the elasticity factor a confidential piece of  
20 information on that exhibit?

21 MR. SHAW: Are you on the second page of  
22 the exhibit?

23 MS. ARNOLD: I'm on the first page. Exhibit  
24 C-8.

25 THE WITNESS: In the past we've maintained

1 that price elasticity of demand is a confidential  
2 piece of information.

3 Q. All right. Then I will ask you just  
4 general questions about it. First of all, how did you  
5 determine that elasticity factor?

6 A. The elasticity factor was determined by our  
7 product management people based on their experience.

8 Q. What experience specifically, if you know?

9 A. Yes. They've had quite a bit of experience  
10 in other states on what prices and the reaction those  
11 prices might be in private line services and so forth.  
12 In this particular case, there was a similar price  
13 increase that was used to validate that elasticity and  
14 that was in the state of Oregon.

15 Q. Did that have to do with converting  
16 terminal loop customers to private line service?

17 A. Yes, it did.

18 Q. Did it have -- involve a rate increase of  
19 the magnitude that this one does?

20 A. Fairly significant increases as well, yes.

21 Q. But you don't know for sure what the right  
22 number is to put in that elasticity factor because you  
23 don't have any experience in this jurisdiction with  
24 converting group of customers to a different tariff  
25 with a magnitude -- increased magnitude of this size,



1 do you?

2 A. I would say we don't know with certainty  
3 that that's the correct answer. We have fairly good  
4 confidence that it's close.

5 Q. Now, I'm not an economist so you can help  
6 me out here. Is it correct that demand is considered  
7 relatively inelastic if the decline in sales is less  
8 than the percentage decline in price?

9 A. That is correct. The formula would be  
10 elasticity is a ratio of the change in quantity --  
11 percent change in quantity to the percent change in  
12 price. That's the textbook portion.

13 Q. And then demand is considered elastic if  
14 the percentage decline in sales is greater than the  
15 percentage decline in price; is that right?

16 A. I believe that's correct.

17 Q. Isn't it true that a firm is considered to  
18 have market power if it can raise its prices without  
19 losing sales?

20 A. The answer to that is yes and no.

21 Q. Well, I will ask you a different question.  
22 Isn't it true, then, that the elasticity that is shown  
23 on your Exhibit C-8, if it is in fact correct, shows  
24 that U S West has substantial market power in the  
25 market for term loop service?

1           A.     No, I don't believe that's what it shows at  
2 all. What this particular elasticity figure shows is  
3 that, in this particular case, is that the prices for  
4 the services are very, very low relative to cost and  
5 probably very, very low compared to other  
6 alternatives, so in this particular situation we can  
7 determine that the company has services that perhaps  
8 are inelastic in this price range.

9           Q.     Didn't U S West do a price study of private  
10 line service a few years ago that determined elasticity  
11 of demand for that product?

12          A.     It's not uncommon for us to do that. I'm  
13 not familiar with the particular study that you're  
14 referring to.

15          Q.     Do you have your responses to data requests  
16 there?

17          A.     I have the ones that I responded to, yes.

18          Q.     Would you look at DIS 02-023. The question  
19 in that data request is this: "Is it U S West's  
20 position that terminal loops are now or will soon be a  
21 competitive service?" And would you read your  
22 response, please.

23          A.     Response: "Yes. It is U S West's position  
24 that terminal loops are private lines and that private  
25 line services are competitive."

1 Q. Where in Washington is there competitive  
2 service available for a terminal loop customer today,  
3 if any place?

4 A. Let's take the city of Seattle. There are  
5 at least five facility-based carriers operating there.  
6 That would appear to me to indicate that there's ample  
7 competition for these types of services.

8 Q. In downtown Seattle there is competition  
9 for term loop service?

10 A. The competition is more than willing to  
11 provide services between buildings for customers, as I  
12 understand it.

13 Q. Now, Ms. Owen this morning passed the buck  
14 to you on competitive private line services in Moses  
15 Lake, Washington. Do you think there's competition  
16 for term loop customers in Moses Lake?

17 A. In Moses Lake I'm sure that there's not  
18 nearly as many facility-based carriers as we have in  
19 downtown Seattle, but I might point out that there may  
20 be some, and there's certainly the availability for  
21 private systems, and I'm sure that there's a number of  
22 private microwave systems that are throughout the  
23 Eastern Washington area. I don't have any facts in  
24 front of me to show that but it's fairly common for  
25 customers to use microwave. In fact I've heard that

1 there's a number of VSATs that are used. That's very  
2 small aperture terminals that are used for  
3 transmitting signals which could be used perhaps  
4 between locations and so forth. So competition in  
5 this regard would be perhaps privately provided  
6 whether it be a school board or a city, that's just  
7 an example.

8 Q. Do you know of any providers that are  
9 offering that service in Moses Lake?

10 A. No, I do not.

11 Q. How about Yakima? You don't know of  
12 anybody that's providing that service in Yakima, do  
13 you?

14 A. I have not checked and so therefore I would  
15 have to answer no, I don't know.

16 Q. Wouldn't it be accurate to say that term  
17 loop customers in Moses Lake and in Yakima are captive  
18 customers of U S West?

19 A. As I just pointed out, I believe that there  
20 are some other ways that a customer can provide the  
21 equivalent, and there we certainly other alternatives  
22 within U S West's own private line.

23 Q. Now, microwave and some of the other  
24 options that you just mentioned, would it be cost  
25 effective for a customer to have just one circuit

1 provided by any of those methods? Wouldn't it have to  
2 be a very large user in order to pay the capital costs  
3 of having a microwave system, for example, installed?

4 A. That's my best guess, yes.

5 Q. It wouldn't be economically feasible for  
6 the city of Bellevue, say, to communicate between city  
7 hall and the recreation center by having that type of  
8 system put in, would it?

9 A. I don't know what the cost breakdowns would  
10 be for all of those particular services, but I assume  
11 that the city of Bellevue has quite a few facilities  
12 that run around the particular -- within the city  
13 limits and there might be some way that they could do  
14 that on a cost effective basis. I really don't know  
15 what that would be, but from what I understand that  
16 there are a number of options. I've been reading in  
17 some of the trade literature recently about a school  
18 system that was installing a microwave and was able to  
19 save quite a bit of costs over wire line facilities  
20 provided by the telephone company. It was a  
21 California school system. But there probably are a  
22 lot of examples. Maybe shared facilities with other  
23 providers would be an answer.

24 Q. It might be more an incentive for a smaller  
25 system to look at competitive alternatives when they

1 see their rates going from \$6 to \$45, mightn't it?

2 A. They would have to compare it to what the  
3 prices are for the other alternatives. The problem is  
4 that we have been sending false economic signals with  
5 these very, very low priced services all below cost,  
6 and there's really no public policy reason why we  
7 should have services below cost. That's the whole  
8 point of this particular filing is to get them up  
9 above cost.

10 Q. Now, at some point I believe that you said  
11 that you considered term loop service to be  
12 discretionary; is that right? Did you say that in a  
13 data request?

14 A. I don't believe I used that term, no.

15 Q. Do you consider term loop itself to be  
16 discretionary?

17 A. Discretionary from the standpoint that if  
18 there were other alternatives I believe it would be  
19 considered discretionary.

20 Q. But the service itself you don't consider  
21 Butdiscretionary, do you? If, for example, the city of  
22 Bellevue needed to communicate among its different  
23 offices, wouldn't you consider that that was not a  
24 discretionary-type service?

25 A. It's discretionary from the standpoint that

1 there are other alternatives perhaps available.

2 Q. Do you have response to data request WUT  
3 01-013 there?

4 A. Yes, I do.

5 Q. Part A of that says, "Please define the  
6 terms 'functionally equivalent service' and  
7 'technically equivalent service.'"

8 A. Yes.

9 Q. And in your answer to the first part you  
10 say functionally equivalent service means that the  
11 services being compared are corresponding or virtually  
12 identical, especially in effect of function," which  
13 sounds to me like you're saying functionally equivalent  
14 services are the same in terms of function, and I  
15 wondered if you could elaborate exactly what you meant  
16 by function.

17 A. Let's take the example of the one that you  
18 had described to me earlier where we have an  
19 off-premises PBX station.

20 Q. Okay.

21 A. The functionally equivalent service might  
22 be one that has capability of providing communications  
23 between the customer at the PBX and the customer that  
24 uses the station at that remote location. It can be a  
25 1FB or it could be the off-prem station.

1 Q. When you talk about function, then you're  
2 not talking about the way a particular business or  
3 governmental agency actually uses the type of service,  
4 are you?

5 A. Well, I believe that's what I was saying,  
6 yes. If they need to communicate between those two  
7 locations, they could do it over this particular  
8 facility which would be the off-premises PBX station,  
9 or they could do it with a dialed call over the  
10 switched network. So they would function similarly is  
11 what I'm saying.

12 Q. Similar?

13 A. Yes. They would provide virtually the same  
14 type of service. You would be able to talk to the  
15 person at the other end of the phone.

16 Q. Did you do any kind of study to determine  
17 how terminal loop customers use this service as  
18 opposed to private line customers?

19 A. We have a good idea that they're used in a  
20 similar manner. I haven't performed any studies in  
21 that respect, but our people do with customers on a  
22 daily basis when they provision these facilities.

23 Q. Now, when you define technically  
24 equivalent, you were asked to tell us what documents  
25 support your contention that term loop service and



1 private line service are technically equivalent.

2 A. Yes.

3 Q. And one of the documents you referred us to  
4 was the diagram we were just looking at, which is  
5 Exhibit 4?

6 A. Yes.

7 Q. Would you turn to that, please.

8 A. Certainly.

9 Q. Now, you make it look on this diagram as if  
10 term loop -- as if every term loop is the same length  
11 as every NAC, at least it looks that way. That's not  
12 correct, though, is it?

13 A. If a terminal loop is one mile long from a  
14 customer's premises to the central office then we  
15 could provide a NAC that would be one mile long as  
16 well. That's what I'm trying to demonstrate here, that  
17 if we had equal situations you could provide terminal  
18 loop or a NAC --

19 Q. A longer --

20 A. -- and they would be the same thing.

21 Q. But if the NAC were say five miles in  
22 length and the terminal loop were one mile, it would  
23 be more expensive to provide the service with that  
24 NAC, wouldn't it?

25 A. The costs would be higher for the longer

1 loop, yes.

2 Q. And did you make any studies to determine  
3 whether the terminal loops that are used to serve the  
4 terminal loop customers are in fact as a whole shorter  
5 than the NACs that are used to serve private line  
6 customers?

7 A. I know you're not going to want to hear  
8 this, but I'm going to have to refer that question to  
9 Ms. Santos-Rach who compiled the cost data, and at  
10 this juncture I don't know how they broke all of those  
11 down, so I would have to ask that you ask her that  
12 particular question.

13 Q. So you just don't know if in fact an  
14 average terminal loop is shorter than an average NAC,  
15 do you?

16 A. I don't personally. I think perhaps  
17 somebody in this room may, though.

18 Q. Now, you also referred us -- when we asked  
19 you for a document that supported your position that  
20 private line and term loop service are technically  
21 equivalent, you referred us to Ms. Santos-Rach's cost  
22 study. Aren't you begging the question when you assume  
23 that the cost of terminal loop service are the same as  
24 the cost of private line service and then you tell us  
25 well her cost study shows us that, because doesn't her

1 cost study in fact assume that?

2 A. What she tried to price out -- excuse me --  
3 cost out in her cost study I'm sure is the complete  
4 spectrum of NACs and terminal loops, if you will, from  
5 very short to very long.

6 Q. But she doesn't --

7 A. They're all included in her study and she's  
8 weighted them accordingly.

9 Q. Her cost study in fact doesn't identify  
10 which of those lines are terminal lines and which of  
11 them are NACs used to serve private line customers,  
12 does it?

13 A. I don't know that. I would refer that to  
14 Ms. Santos-Rach.

15 Q. And do you know if her study identifies  
16 channel performance costs that are caused by private  
17 line customers as opposed to channel performance costs  
18 that may be caused by terminal loop customers?

19 A. I don't know that it's broken out  
20 separately. You would have to ask her.

21 Q. Do you have data request BEL 01004 there?

22 A. Yes, I do.

23 Q. Look at your answer to D4. You state that  
24 "technical specification BSP 851301165 demonstrates  
25 that an off-premises station circuit, which is a

1 terminal loop, is defined and designed in the same  
2 manner as a voice grade 32 circuit from -- and you give  
3 the technical reference, right?

4 A. That is correct.

5 Q. Now, what components are involved in the  
6 provisioning of terminal loop service besides the  
7 terminal loop itself?

8 A. The terminal loop itself includes the  
9 loop and the conditioning to make the line work. In  
10 the private line world that is the NAC and the channel  
11 performance. My answer here is if you look at the  
12 BSP, which was referencing the earlier days when you  
13 had, in this case, PBX off station extensions, they  
14 had certain requirements for that particular facility  
15 and it was the 4DB circuit and things of that nature,  
16 and other requirements on transmission. That same  
17 type of requirement is included in the technical  
18 reference that I have quoted here for all private line  
19 transport services of the same nature. So what I have  
20 tried to show was that the provisioning -- the  
21 technical requirement for the provisioning of the  
22 terminal loop is exactly the same as that which is in  
23 private line transport service technical references.

24 Furthermore, I also know that when our  
25 circuit provisioning center people build these

1 particular circuits it doesn't matter to them whether  
2 it's a terminal loop or a private line voice grade 32,  
3 it's provisioned in absolutely the same manner. They  
4 use the same equipment. They build it to the same  
5 specifications, so it is in all respects the same  
6 particular circuit that you would have whether it was  
7 private line transport service or terminal loop.  
8 There's only one exception and that's the price.

9 Q. Well, at least for the circuit.

10 A. I don't understand the question.

11 Q. Well, I understood you to say that the  
12 circuit is technically the same, and you referred to  
13 the specification, but any other components of that  
14 two types of service --

15 A. The components are exactly the same.

16 Q. All right. Look, if you will, please at  
17 public counsel data request -- response to data  
18 request 01-010. You are asked there to list other  
19 U S West tariffed services that are functionally and  
20 technically equivalent but are priced differently. And  
21 you mention several types of service there. Would you  
22 explain first of all with respect to 1FR and 1FV why  
23 those two services which you consider technically and  
24 functionally equivalent are priced differently?

25 A. One is for residence and one is for

1 business.

2 Q. And how was that an explanation for why  
3 they're priced differently?

4 A. As Ms. Owen explained this morning, we do  
5 price differently in the residential market than we do  
6 for business services and that's what I rely on there.  
7 In the MPS and optional toll calling --

8 Q. Just a minute. In other words, it's the  
9 type of customer that justifies the difference in  
10 pricing?

11 A. Just if it's residence versus business,  
12 yes.

13 Q. And that's the --

14 A. Those are the two categories of pricing  
15 that we have.

16 Q. But you're saying that's technical  
17 equivalent service but because you have a different  
18 customer on each end you price them differently; is  
19 that right?

20 A. That is correct.

21 Q. Do you know what percentage of the terminal  
22 loop customers that you serve on public agencies?

23 A. I don't exactly know. I would have to make  
24 a count, and I don't know.

25 Q. Did you do any analysis of the impact of

1 the rate increase of the magnitude you're proposing on  
2 the public agencies who take terminal loop service?

3 A. I made no study of that nature.

4 Q. Do you have any information on the lead  
5 time that it takes to budget and plan for a rate  
6 increase of that magnitude?

7 A. I'm not familiar with the budgeting  
8 schedules, no. I might point out, however, there was  
9 quite a bit of notification for our plan for moving  
10 these particular services over to private line  
11 transport service. We indicated back in 1987 with  
12 those prices that were effective in 1988 what our plans  
13 were and then we filed of course in August of 1993 to  
14 indicate this particular tariff filing.

15 Q. Now, you say in your answer to the data  
16 response that we just looked at that historical  
17 regulatory oversight of 1FR and 1FB services is a  
18 rationale for disparate treatment of these services.  
19 Would you agree that historical regulatory oversight  
20 might be a valid reason for pricing identical services  
21 somewhat differently?

22 A. As I mentioned before, I know of no public  
23 policy reason for pricing a service under cost except  
24 perhaps if it is a residence service.

25 JUDGE CANFIELD: Ms. Arnold, can you update

1 your estimate? We're already well beyond it

2 MS. ARNOLD: One more question.

3 JUDGE CANFIELD: Fine.

4 Q. Page 17, line 26. I was going to ask you  
5 to compare it to Mary Owen's testimony at page 15,  
6 line 20.

7 A. Page 17 of my testimony?

8 Q. Yes, line 26 and page 15 of Mary Owen's  
9 testimony at line 20. Why is it that you say the  
10 overall impact of the proposals results in a decrease  
11 of annual revenues of \$194,889 and she says the net  
12 overall annual revenue effect is an increase of one  
13 million -- I think she corrected it to -- \$70,467?

14 A. On the surface that would look like it was  
15 an error. What I was referring to was the particular  
16 advice that was filed that included the terminal loops  
17 and the offsetting service. There were more than one  
18 advice letter involved in this particular case, and  
19 Ms. Owen's figure is a compilation of all of them.

20 Q. Now, you referred to the offsetting service  
21 -- I guess I had two questions. The increase in  
22 terminal loops is supposed to be offset by the decrease  
23 in complex lines; is that right?

24 A. The restructure there, yes.

25 Q. But would you agree that a customer, for



1 example, that purchased 12 business lines and had 235  
2 terminal loops would not see any offsetting benefits  
3 of your proposal?

4 A. There would be some offsets, but certainly  
5 not to the degree that they would be equally offset.  
6 The particular offset that we're talking about here is  
7 for the state of Washington total. Not any one  
8 individual customer.

9 MS. ARNOLD: Thank you, Mr. Rees.

10 MR. SHAW: Your Honor, if I could interject  
11 right here, I'm not aware that Ms. Arnold who  
12 apparently is just recently associated with the city  
13 of Bellevue for this case has signed the agreement to  
14 keep confidential our proprietary data.

15 MS. ARNOLD: Your Honor, excuse me, but I  
16 did sign it and I believe that it was sent in.

17 MR. SHAW: Okay. Then my mistake if that's  
18 been done. Thank you.

19 JUDGE CANFIELD: Good to tie up those  
20 possible loose ends. With that we'll adjourn for the  
21 day and is everybody comfortable with the 9:30 start  
22 or does anybody want to move it up?

23 9:30, that's the consensus. 9:30 in the  
24 morning. This hearing is adjourned for the day.

25 (Hearing adjourned at 5:00 p.m.)