

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

5 U S WEST COMMUNICATIONS, INC., by
6 EDWARD T. SHAW, and MOLLY HASTINGS, Corporate Counsel,
7 P.O. Box 21225, Seattle, Washington 98111.

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

11 CITY OF BELLEVUE by DAVID KAHN, Assistant
12 City Attorney, 11511 Main Street, Bellevue, Washington
13 98009-9012 and CAROL S. ARNOLD, Attorney at Law, 5000
14 Columbia Center, Seattle, Washington 98104.

15 TCA, PUGET SOUND CHAPTER, and TRACER, by
16 ARTHUR A. BUTLER, Attorney at Law, 1201 Third Avenue,
17 Suite 2850, Seattle, Washington 98101.

18 DEPARTMENT OF INFORMATION SERVICES, by
19 ROSELYN MARCUS, Assistant Attorney General, 905 Plum
20 Street, Building 3, P.O. Box 40100, Olympia,
21 Washington 98504.

22 PUBLIC INTEREST, by DONALD T. TROTTER,
23 Assistant Attorney General, 900 Fourth Avenue, Suite
24 2000, Seattle, Washington 98104.

25 DIGITAL DIRECT of SEATTLE, TCG SEATTLE, by
GREGORY J. KOPTA, Attorney at Law, 2600 Century
Square, 1501 Fourth Avenue, Seattle, Washington 98101.

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

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

WASHINGTON STATE SCHOOL DIRECTORS
ASSOCIATION and THE EVERGREEN STATE COLLEGE by JAN
FRICKELTON, Assistant Attorney General, P.O. Box
40100, Olympia, Washington 98504.
Cheryl Macdonald, CSR
Court Reporter

	I N D E X					
	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS	JUDGE
1						
2	REES		309,335			
3			350,353,361			
4	NOWNES	385	387			
5			403,406, 408			
6	SANTOS-RACH	429	431,449			
7			451,482,486			
8	EXHIBIT	MARKED	ADMITTED			
9	C-21		421			
10	C-22	424	428			
11	T-10		387			
12	11		387			
13	12		387			
14	T-13		430			
15	C-14		430			
16	C-19		430			
17	RECORD REQ.	PAGE				
18	5	321				
19	6	332				
20	7	350				
21	8	380				
22	9	398				
23	10	414				
24	11	423				
25	12	455				
	13	464				
	14	466				

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

2 JUDGE CANFIELD: This hearing will come to
3 order. This is a continuation of the hearing in the
4 matter of Washington Utilities and Transportation
5 Commission versus U S West docket Nos. UT-930957,
6 931055 and 930158. Today's date is May 3, 1994 and
7 the hearing is being held in Olympia, and at
8 yesterday's hearing were in the middle of taking direct
9 testimony and cross-examination of U S West witnesses,
10 and before we get to where we left off yesterday, are
11 there any preliminary matters that anyone has to
12 address? I will take -- let me just go ahead and take
13 appearances at the outset. I won't need full
14 appearances, just a name and who you represent for the
15 record. Beginning with the respondent.

16 MR. SHAW: Ed Shaw and Molly Hastings for
17 the respondent.

18 MR. HARLOW: Brooks Harlow for Metronet,
19 MCI and ATS.

20 MR. KOPTA: Gregory Kopta for Digital
21 Direct Seattle and TCG Seattle.

22 MR. BUTLER: Arthur A. Butler appearing
23 on behalf of Tracer and the Puget Sound chapter of
24 TCA.

25 MS. ARNOLD: Carol Arnold on behalf of city

1 of Bellevue.

2 MR. KAHN: David Kahn on behalf of city of
3 Bellevue.

4 MS. MARCUS: Roselyn Marcus, assistant
5 attorney general representing Department of
6 Information Services.

7 MS. FRICKELTON: Jan Frickelton, assistant
8 attorney general representing the Washington State
9 School Directors Association and Evergreen State
10 College.

11 MR. NETTLETON: John Nettleton for the
12 Association of Washington Cities.

13 MR. TROTTER: Donald T. Trotter, assistant
14 attorney general for the public counsel section.

15 MR. TRAUTMAN: Gregory Trautman appearing
16 for the Commission staff.

17 JUDGE CANFIELD: I will note that's all the
18 appearances. They are the same today as they were
19 yesterday with the exception that Rick Finnigan
20 indicated during a break yesterday that he hoped to
21 be here in the afternoon session but that he would
22 probably not be here in the morning session.

23 In way of a preliminary matter that we're
24 going to resolve at some point before the end of the
25 company cross session, I did contact the parties'

1 representatives by phone that were not here by
2 yesterday concerning the waiver of the initial order
3 and did receive affirmative responses from the three
4 of them. It was pointed out that GTE's answer to the
5 motion contained their waiver and I did look at that
6 to verify that. And as far as Social and Health
7 Services, Lianne Malloy indicated that she agreed to
8 waive the initial order and would be sending in her
9 waiver, and the same for Ron Zirkle for Yakima County
10 and Robert Steer for King County. So they will be
11 forwarding those to the Commission, so that would make
12 it unanimous that all parties agreed to waive the
13 initial order, and there was the discussion that some
14 of them were conditional waivers and wanted some
15 additional time tacked on and I am willing to discuss
16 that at some point during the session, so be thinking
17 of that. The request was to add two weeks to the
18 remaining dates that we had, those being the prefiling
19 dates, the actual hearing dates as well as the brief
20 dates, so we'll touch back, but you can be giving it
21 some thought in the meantime.

22 Any further preliminary-type matters that
23 anyone has to address?

24 Hearing none, why don't we pick up where we
25 left off yesterday. Ms. Arnold had just concluded her

1 cross of Mr. Rees and next up was Ms. Marcus.

2

3 CROSS-EXAMINATION

4 BY MS. MARCUS:

5 Q. Good morning.

6 A. Morning, Ms. Marcus.

7 Q. We've been talking about how private lines
8 are the functional equivalent of terminal loop.

9 JUDGE CANFIELD: I would ask people to use
10 microphones. We have a rather large group today.

11 Q. I would like you to turn to DIS data
12 request 03-035. And in subsection A we asked to have
13 you explain why some U S West customers currently
14 purchase voice grade off-premises extension at higher
15 prices than they would pay for the functionally
16 equivalent service now provided under schedule 12 of
17 the exchange tariff. Do you see that?

18 A. Yes, I do.

19 Q. And could you read your response to that,
20 please.

21 A. The response to part A, "Terminal loops
22 services from schedule 12 are for extensions within an
23 exchange while voice grade private line would be
24 purchased for interexchange extensions. These
25 services look exactly alike except one is

1 intraexchange and the other is interexchange."

2 Q. To see if I understand this, the way it is
3 right now if a customer comes to you and wants to buy
4 an interexchange service, the service between two
5 exchanges, you would sell them a service out of the
6 private line tariff; is that correct?

7 A. Instead of a terminal loop, that is
8 correct.

9 Q. So then in the converse, if a customer
10 right now came to you and wanted to purchase a service
11 that's totally within an exchange, you would sell them
12 a service from schedule 12 of the exchange tariff?

13 A. If it was the terminal loop type of service
14 they want, that's correct.

15 Q. Now, when a private line goes through
16 another company's territories, it's an interexchange
17 service, U S West would have to pay an access charge to
18 that company; isn't that correct?

19 A. When we terminate a service into an
20 exchange other than our own we do pay access to that
21 independent telephone company.

22 Q. Now when the private line rates were set --
23 and you were determining what the prices were to cover
24 the costs -- were the access charges that U S West has
25 to pay to another company taken into account when the

1 private line rates were set?

2 A. Our private line services included all the
3 costs that we would experience, and I'm not familiar
4 enough with that study to determine exactly whether
5 the access was included in that cost or not. I would
6 have to take a look at that older cost study. I just
7 can't answer that question right off.

8 Q. Is that something that I would have to ask
9 Ms. Santos-Rach or is that something you can check?

10 A. I could check that. I'm continuing to
11 think about this issue. When we terminate into
12 another independent telephone company's territory,
13 today there is a meet point billing arrangement where
14 we bill our private line rate up to the meet point
15 and the other independent telephone company would
16 then bill their portion of the loop at their rate. So
17 in that particular case under meet point, as we see it
18 today, there would be no access paid. So there is a
19 change that is in the making right now that we should
20 all be aware of.

21 Q. But the private line rates were set -- the
22 last time the private line rates were set you were
23 paying access charges and you did not have meet point
24 billing in effect yet; isn't that correct?

25 A. I believe that is correct.

1 Q. And the private line rates have not been
2 reduced to reflect any change in U S West access
3 charges that they need to pay to other independent
4 telephone companies?

5 A. If those access charges were in there, that
6 would be a correct statement. Like I say, I'm not
7 sure whether the access charges are a part of that
8 cost or not for pricing purposes.

9 Q. Now, a terminal loop is a service that is
10 totally within an exchange, correct?

11 A. That is correct.

12 Q. Then would you agree that as an
13 intraexchange service U S West would never have to pay
14 an access charge for a terminal loop service?

15 A. There is no independent telephone company
16 involved so there would be no access charge, that's
17 correct.

18 Q. So that is a cost difference between
19 private line service and terminal loop service as it's
20 done today?

21 A. Yes.

22 Q. Now, regarding loop lengths, am I correct
23 that a system is less costly if it has a shorter loop
24 length, the length of the loop is shorter?

25 A. The costs are included in the cost studies

1 which reflect all lengths of the loop. If we wanted
2 to get into the cost details on that, Ms. Santos-Rach
3 has those studies and she could respond to that.

4 Q. Have you looked at whether terminal loop
5 service as a whole have shorter loop lengths than the
6 private line systems that are in effect right now?

7 A. Terminal loops and the NACs, which would be
8 part of private line, could be of any length. Each
9 could be very short or each could be very long, so
10 they would be the same in that regard. There would be
11 some very long ones, some very short ones for each.

12 Q. But have you specifically studied the
13 Washington terminal loops that are in place right now
14 and the Washington private line groups that are in
15 effect right now to see if the length of the loops
16 vary?

17 A. Terminal loops and the NACs are the same
18 thing, and so they were studied as a package. As I
19 mentioned yesterday, when we were discussing this, we
20 have a spectrum of a very short to the very long loops.
21 Terminal loops as well as the NACs are included in that
22 study, so they're both included.

23 Q. But they weren't separated out so we could
24 tell which ones are the terminal loops and which ones
25 are the private lines?

1 A. No. There was no need to separate them out
2 because they were the same type of facility.

3 Q. I would like to turn to mileage. Am I
4 correct in understanding that interexchange mileage
5 has the same costs regardless of the service that it's
6 connected with?

7 A. Mileage is mileage and what we're dealing
8 with here in this particular filing is the interoffice
9 mileage, which is called transport mileage in the
10 private line tariff, and it's listed under mileage
11 rates in the exchange tariff, so we have two different
12 prices for the same service in effect today. And
13 that's what we're trying to correct.

14 Q. With the cost of the mileage for private
15 lines, should that cost be about the same for, let's
16 say, the mileage rate for E911?

17 A. I'm sorry, I don't understand that
18 question. Could you rephrase it for me.

19 Q. In determining the cost of mileage for
20 private lines and thereby setting your rates, would
21 that cost for mileage for private lines be the same as
22 the cost for mileage in the E911 system?

23 A. I don't have the figures on cost, but I
24 believe Ms. Santos-Rach would have those costs. If
25 you could redirect that question to her, I believe you

1 could get a response.

2 Q. I would like to discuss your Exhibit C-9.

3 A. Yes.

4 JUDGE CANFIELD: And as came up yesterday,
5 when discussing confidential exhibits, extra care must
6 be taken by the questioner and answerer.

7 THE WITNESS: Thank you, sir.

8 Q. Towards the bottom where you have mileage?

9 A. Yes.

10 Q. Could you tell me what a 1LXBR is?

11 A. That's an interoffice mileage out of the
12 mileage rate schedule in the exchange tariff.

13 Q. And the one underneath it, 1LXBR (CTX)?

14 A. The 1LXBR with the Centrex notation after it
15 is a service used for multi-location Centrex.

16 Q. And the one under that, 1LVF8 (CTX)?

17 A. Yes. The 1LVF8 is from the mileage
18 schedule, and again, that is for Centrex
19 multi-location. I misspoke when I said the 1LXBR
20 Centrex above was for Centrex multi-location. The
21 Centrex multi-location is the 1LVF 8 and the 1LXBR with
22 Centrex is for Centriplex 2 and 3 Centron custom.

23 Q. And lastly the 1LX4R?

24 A. That's used for remote central office
25 service.

1 Q. Now, in understanding this chart, am I to
2 understand that the second and third column relate
3 directly to the USOC code directly opposite it?

4 A. The second and third column being the
5 present USOC and the quantities?

6 Q. I'm sorry. The third and fourth quantity,
7 quantity and present rate, do those numbers relate to
8 the USOC?

9 A. That is correct. What we're talking about
10 here isn't proprietary, so just as an example, the
11 1LXBR is priced at \$1.35 per quarter mile.

12 Q. Now, going over to -- you have fixed and
13 per mile?

14 A. Correct.

15 Q. The over zero to 8 and then there's the
16 proposed rate. Does that have any connection with the
17 USOC that's in the second column then or is that --
18 should I start reading that column separately?

19 A. These are all tariffed rates out of the
20 private line transport service tariff.

21 Q. But you're not saying that only 1LXBR has
22 over -- zero to 8 fixed miles?

23 A. No, I'm not.

24 Q. Is mileage for loops in excess of the base
25 area shown in this exhibit?

1 A. Would you explain that a little further so
2 I can answer that.

3 Q. I believe in schedule 12 of the exchange
4 tariff it states that mileage charge -- a mileage is
5 charged for mileage outside the base area currently in
6 the terminal loops tariff and I was wondering how that
7 was going to be converted when you moved it to private
8 lines.

9 A. I understand the question. In the private
10 line transport service tariff when a customer orders a
11 NAC, that NAC will cover all of the mileages within
12 the wire center, so there would not be any additional
13 mileage within that wire center charge.

14 Q. Now, at the top of the page where it has
15 off-premises PBX and it shows a current -- a present
16 rate of \$12 -- do you see that?

17 A. Yes, I do.

18 Q. And it has a quantity number next to it to
19 the left?

20 A. Yes, it does.

21 Q. Could you take a look at Exhibit C-8.

22 A. Which page should we look at?

23 Q. The second page.

24 A. Yes.

25 Q. At the top of the page it also has

1 off-premises PBX. It has the same quantity but it has
2 a different current rate. Could you explain why the
3 rates are different in these two exhibits?

4 A. In the C-9 exhibit, for an off-prem PBX,
5 there is normally two term loops required as there
6 would be two NACs, so what we've tried to show on C-9
7 would be what the customer would see for that
8 particular service. For instance, an off-prem PBX at a
9 1LXVJ would require a terminal loop between the PBX
10 and the central office and another terminal loop
11 between the central office and the off-prem station, so
12 there would be two term loops at \$6 apiece so that
13 would be \$12.

14 Q. Does the quantity reflect the fact that
15 there are two term loops then because it's different
16 than the number underneath in parentheses?
17 You see a number in parentheses?

18 A. Yes. On C-9 on the far left column there is
19 a number that is the number of circuits involved and
20 you will notice that the quantity of the 1LXVJ is twice
21 that which would indicate there would be two term
22 loops.

23 Q. Turning to the last page of C-8, do you have
24 the work papers that show how you used the bottom
25 prices to compute the proposed revenues at the top of

1 the page?

2 A. There are some work papers that I don't
3 have with me.

4 MS. MARCUS: I would like to make a record
5 requisition for the work papers that would detail how
6 the bottom prices were used to compute the proposed
7 revenues sufficient so that we can replicate those
8 calculations.

9 JUDGE CANFIELD: Mr. Rees, you indicate
10 those work papers are available, you just don't have
11 them with you today?

12 THE WITNESS: That's correct. I wonder if
13 perhaps we could just work through them and you could
14 see how those numbers work out from this sheet. If
15 that would expedite the matter.

16 JUDGE CANFIELD: Is that a lengthy
17 undertaking?

18 THE WITNESS: The numbers add up on the
19 columns is what I'm suggesting, and we can do the
20 extensions. It's the number of circuits times the
21 rate which equals a value that is shown, and we do
22 that for all of the mileages and it comes up to a
23 monthly revenue total. That monthly revenue total is
24 then multiplied by 12 to come up with the column on
25 the far right which is the annual amount.

1 MR. SHAW: Your Honor, I'm advised we
2 really don't have any work papers for this simple
3 arithmetic that we know of, so we would hope that the
4 presentation in the formula is adequate.

5 THE WITNESS: And I just misspoke also.
6 The column on the far right is monthly rates and what
7 we have done is to show the present and the proposed
8 revenues in each of those columns. It's not until we
9 add up the total monthly revenue change which is shown
10 on the second line from the bottom -- it says total
11 monthly revenue -- and multiply that by 12 to come up
12 with a total annual revenue change.

13 Q. Well, if you look on the third line, the
14 1LVF8/Centrex after the number of circuits you have
15 two different prices. How are we to know how many
16 circuits you priced at the first number and how many
17 circuits you priced at the second number to arrive at
18 the figure next to it?

19 A. I know what the different prices are, and I
20 don't have the various quantities in my mind so I
21 can't tell you which ones were multiplied, so we would
22 have to take the 1873 and provide the breakdown for
23 you.

24 MS. MARCUS: So, again, I would renew my
25 record requisition for the work papers that support the

1 rates at the bottom and how the rates at the bottom of
2 the page, the transport rates, were used to arrive at
3 the --

4 JUDGE CANFIELD: Could you provide a
5 clarification of that in some sort of a response,
6 Mr. Rees?

7 THE WITNESS: I will certainly go through
8 the work papers and find if I have some further
9 clarification. I don't have those in mind now but I
10 will certainly work on it.

11 Q. Certainly if you multiplied across it
12 doesn't equal the numbers.

13 A. You have to have a little further breakdown
14 on it.

15 JUDGE CANFIELD: Okay. Mr. Rees will look
16 through that and provide that information and that
17 will be record requisition No. 5.

18 (Record requisition 5.)

19 Q. Now, in trying to determine the appropriate
20 price floor for terminal loops, are you the
21 appropriate person to ask those questions to?

22 A. If you're referring to the cost which is
23 the price floor, the appropriate witness would be
24 Ms. Santos-Rach.

25 Q. Would you agree that currently there are

1 terminal loops services which don't have channel
2 performance -- service on the terminal loops to
3 require -- to make the terminal loops work?

4 A. No, I wouldn't agree with that.

5 Q. So it is your testimony that all terminal
6 loop services have some sort of channel performance
7 associated with it?

8 A. It may be very simple channel performance,
9 but there has to be some channel performance for each
10 terminal loop to insure a quality of the circuit.

11 Q. Now, from what I understand when you
12 eliminate the terminal loops tariff and move them into
13 the private lines tariff and call them private lines,
14 am I correct that all customers will be charged for
15 some type of channel performance?

16 A. Each NAC would require channel performance,
17 that is correct.

18 Q. Will the customer have an option as to
19 whether to purchase channel performance?

20 A. They certainly would. It's certainly U S
21 West's obligation, however, to advise the customer on
22 the type of channel performance that would be required
23 to provide the type of service that meets the
24 specifications of the equipment on the end of those
25 circuits.

1 Q. I would like to take an example of
2 Centralia College. They have a terminal loop and they
3 have a half a mile hard wire going into a central
4 office and then they have a half a mile wire going out
5 to an off-premises extension. They have no metallic
6 facility terminal and currently no channel performance
7 associated with that very short loop and it currently
8 works.

9 Now, when you eliminate terminal loop
10 tariff and move that into the private line tariff, is
11 Centralia College then going to be required to pay for
12 channel performance to maintain that terminal loop?

13 MR. SHAW: Your Honor, I will object to the
14 form of the question. Counsel didn't phrase it as a
15 hypothetical and there's certainly no facts in
16 evidence about Centralia College's loops, so if
17 Counsel could make it a hypothetical.

18 MS. MARCUS: I would rephrase it to keep
19 all of the facts involved and just call it college A.

20 JUDGE CANFIELD: We'll treat it as a
21 hypothetical then.

22 A. First of all, your premise that there is no
23 channel performance on the terminal loop is not
24 correct. There would be some channel performance just
25 to provide the connection to the testing facility,

1 which allows us to test for continuity and that type of
2 thing. And so there is channel performance and that
3 certainly would be the minimum requirement going
4 forward. We would also want to insure that the
5 transmission levels meet the standards that are
6 required by the PBX, and in the cases of a PBX with a
7 registered A port it could very well be that you will
8 need some amplification to improve the transmission,
9 and I am not qualified at this time to say whether the
10 half mile through a central office and another half
11 mile loop would require that or not. Depending on the
12 type of cable that the -- the gauge of the cable and so
13 forth.

14 Q. So would this customer know what their
15 option is -- if the tariff was approved and now they
16 were going into the private line tariff?

17 A. First of all, U S West would provide the
18 equivalent circuit price-wise out of the private line
19 transport service tariff. However, if the customer for
20 some reason or another asked for a specifically
21 different type of channel performance, we would
22 certainly yield to their desires. Might not work as
23 well, the transmission levels perhaps would not be up
24 to the standards that are requested by the criteria for
25 the PBX, but if the customer wanted to do that, I'm

1 sure that U S West would be willing to let them have
2 that type of channel performance. That's what we've
3 indicated in my testimony. The customer can select any
4 kind of channel performance that we have. We would
5 advise them, however, of what is required by the
6 equipment that's on the end of those circuits.

7 Q. Would you be advising them as to what the
8 least cost method of providing the service would be
9 or --

10 A. We would be providing the least cost
11 service that meets the specifications of the
12 manufacturer and that's what we would convert them to.

13 Q. Now, you said that in the hypothetical
14 there was probably channel performance going to the
15 test point?

16 A. Each of our circuits would have to have
17 access to the test phase and so that would be a part
18 of the performance, channel performance.

19 Q. Maybe you could explain why that's part of
20 the channel performance. I'm not sure I understand
21 how going to the test point is equivalent to channel
22 performance.

23 A. What we're trying to do is guarantee
24 transmission levels and signaling, and the way you do
25 that is by testing electronically and so forth and so

1 there has to be access to those circuits through our
2 test phase, and so that's what I refer to as connection
3 to our test center.

4 Q. Now, is this a nonrecurring event that you
5 just need access to the line to test it or is this a
6 provision that has to be on the line all the time in
7 order to make it work?

8 A. The circuit could go out at any time. It's
9 a maintenance type of test as well as a turn-up test.

10 Q. So you're talking more about a maintenance
11 function as opposed to a provisioning function to make
12 the line work?

13 A. The testing facility is for maintenance and
14 turn-up, that's correct.

15 Q. And you are putting in one category, then,
16 that maintenance facility with channel performance?

17 A. It is in there. That's part of the cost.
18 And that's what is covered by our channel performance
19 among other things.

20 Q. Does a 1FB have an extra charge for testing?

21 A. It's part of the cost of a 1FB when we
22 develop the costs for those services. What we've tried
23 to do is to break our private line tariff down into the
24 elements as costs are incurred. We have a NAC for the
25 loop, we have channel performance for those activities

1 that are to maintain the transmission and signaling of
2 that particular service, and of course we have
3 transport mileage for those costs that are experienced
4 between central offices.

5 Q. Do you have the response to DIS 03-034?

6 A. Yes, I do.

7 Q. Now, on the attachment, is it correct that
8 there are the same number of channel performance
9 elements as there are off-premises PBXs?

10 A. There's the same number of channel
11 performances as there are NACs. A particular customer
12 for a PBX off-prem extension, for instance, might have
13 two NACs, so it would be two channel performances.

14 Q. And this is the same for tie lines?

15 A. Tie lines generally have two NACs as well,
16 that's correct, one between the switch that might be a
17 PBX to the central office, another from the central
18 office to the other PBX tying those two PBXs together.

19 Q. So that means that all private -- that no
20 private line customers can avoid paying for channel
21 performance then?

22 A. Each NAC has a channel performance,
23 correct.

24 Q. If you would turn to your Exhibit 4.

25 MR. TROTTER: Which exhibit?

1 THE WITNESS: Exhibit 4 GAR-3 A have that.

2 Q. Assume that the NACs on each end are one
3 kilofoot long?

4 A. Yes.

5 Q. You have told us that virtually all of your
6 interoffice facilities are on some kind of carrier; is
7 that correct?

8 A. I believe the cost study shows that.

9 Q. Are you telling us that this customer could
10 not have a working private line if he did not have
11 channel performance of some type?

12 A. As we discussed before, there is some
13 minimum requirements to insure the transmission on any
14 NAC, and so, yes, there is no way that we could have a
15 NAC without channel performance and still guarantee
16 transmission and signaling.

17 Q. Do you have the response to WUT 01-016?

18 A. Yes, I do.

19 Q. In that question you were asked to provide
20 a list of any and all switched local exchange services
21 for which a channel performance charge is assessed or
22 may be assessed, and you've listed foreign exchange
23 service and remote central office service; is that
24 correct?

25 A. Yes, that's correct.

1 Q. And is there any reason why an OPX
2 Centrex station line was not put on this list?

3 A. At this time there is no channel performance
4 charge to an off-premises Centrex station line. Was
5 that the correct service that you referred to?

6 Q. Uh-huh.

7 A. There is no channel performance charge at
8 this time for that other than what might already be in
9 the price of the Centrex station line itself.

10 Q. Are there any thoughts of charging
11 separately for channel performance and that kind of
12 system as you are planning to do with terminal loop
13 service?

14 A. Yes. If you turn to my Exhibit C-9, you
15 will notice on Centrex there are some places where we
16 will be adding a channel performance, and that channel
17 performance is required when there is an interoffice
18 transport required for a Centrex station, and
19 currently there has been no charge for that. However,
20 the channel performance is required, so it's an
21 element that we are providing without a charge at this
22 time, and this is correcting that, but that's strictly
23 for interoffice.

24 Q. Is it possible that some of your terminal
25 loop customers purchased network access by buying DSS

1 service instead of purchasing complex business lines?

2 A. They buy DSS instead of term loops, is that
3 your question?

4 Q. No, instead of complex business lines.

5 A. Yes. They can use the DSS for data as well
6 as voice.

7 JUDGE CANFIELD: Could I get an update on
8 your estimate, Ms. Marcus?

9 MS. MARCUS: I only have about three more
10 questions.

11 JUDGE CANFIELD: Okay, thanks.

12 Q. Do you know how many terminal loop
13 customers also purchase complex business lines?

14 A. I don't have the number on the top of my
15 head, but I believe there have been some calculations
16 made for this particular case that have been shared
17 with the Commission for some of the -- I guess we don't
18 have it for all of the customers, but for perhaps the
19 ones affected the most, there were some estimates made,
20 but I don't have a complete number for you.

21 Q. If the reduction in your complex business
22 lines would not serve as an offset for your terminal
23 loop customers who would be having a substantial
24 increase but a reduction in DSS trunks would be an
25 offset for the terminal loop customers who are having

1 a substantial increase, would it be something that U S
2 West would look at to reduce DSS trunk prices as an
3 appropriate offset for the increase in terminal loop
4 services?

5 A. No.

6 Q. Because?

7 A. This particular case, we're not looking to
8 reprice any of our other services and at this juncture
9 I believe DSS is priced well within the market. I'm
10 not totally familiar with the pricing on that service,
11 but we don't have any plans at this moment that I am
12 aware of for repricing DSS.

13 Q. We know that there may be a wide range in
14 the ratio of terminal loops to trunks which are taken
15 by different customers; is that correct? Am I correct
16 in that understanding?

17 A. Yes. There's no figure of how many term
18 loops a customer might have based on the number of
19 trunks, so there's a wide range of ratios.

20 Q. Do you have access to that information,
21 however, for the terminal loops customers, the ratio
22 of terminal loops to trunks?

23 A. I don't have that ratio.

24 Q. Does U S West have that ratio?

25 A. I doubt whether that ratio has been

1 calculated.

2 Q. Would it be possible to look to see if it
3 was calculated?

4 A. Certainly.

5 MS. MARCUS: If it's been calculated I
6 would like to make a record requisition for that
7 calculation of the number of term loops to trunks.

8 THE WITNESS: By customer?

9 MS. MARCUS: By customer.

10 JUDGE CANFIELD: One way or the other, he
11 will --

12 MS. MARCUS: Or an average.

13 JUDGE CANFIELD: -- respond to that.

14 That's record requisition No. 6.

15 (Record requisition 6.)

16 MR. SHAW: Your Honor, I am advised --
17 we'll double-check, but I'm advised that it has not
18 been calculated so our answer is likely to be that no
19 calculation exists but we will double-check it.

20 JUDGE CANFIELD: If you would, thanks.

21 Q. This is the last set of questions here. We
22 have heard a number of comments about the 1FB service
23 being an alternative to terminal loops?

24 A. Certainly is.

25 Q. Could you turn to Exhibit 4 for the last

1 time. I want you to consider the private line diagram
2 that you drew.

3 A. Yes.

4 Q. As the 1FB alternative to a term loop in
5 Seattle that goes through two wire centers -- do you
6 have that in mind?

7 A. Yes.

8 Q. Under the current tariff what would be the
9 price for the term loop circuit?

10 A. Under the current term loop tariff then we
11 would have to look at the top line, which is the
12 terminal loop circuit. We would have the first term
13 loop which would be on the left at \$6 and the term
14 loop on the right which would be \$6 and then depending
15 on the mileage, there would be a mileage charge.

16 Q. And that would be at a \$1.35 per quarter
17 mile; is that correct?

18 A. That is correct. Per quarter mile.

19 Q. Now, looking at the 1FB alternative, would U
20 S West incur additional costs at the two switches for
21 the use of the switches?

22 A. If we used a 1FB you're asking me if there
23 would be an additional cost at the central office?

24 Q. Correct.

25 A. Presumably if there's additional usage

1 there perhaps would be a minute amount of cost
2 increase, but a diminimus amount.

3 Q. And then it's correct that at this time U S
4 West does not charge the 1FB customer for the mileage
5 between the two switches?

6 A. Let's consider if this is two separate
7 exchanges without EAS, then there is a total charge.

8 Q. And if it's not?

9 A. If it's EAS it's -- the cost for that
10 particular switching arrangement is a part of the costs
11 for a 1FB.

12 Q. And if it's within the same exchange?

13 A. It would be included as part of the 1FB.
14 That's just the way the prices and the costs go
15 together.

16 Q. Now, if they were to provide a service with
17 stand-by lines serving the same customer, will U S West
18 charge a CALC for each stand-by line?

19 A. I can't answer that question, I'm afraid. I
20 don't know how the CALCs are used at this point.

21 Q. Would Ms. Santos-Rach be a better person to
22 ask that to?

23 A. Our witness that has the basic exchange
24 responsibility, who is Mary Owen.

25 MS. MARCUS: I have nothing further.

1 JUDGE CANFIELD: Thank you. Mr. Butler.

2 MR. BUTLER: I will try to be as short as I
3 can.

4 CROSS-EXAMINATION

5 BY MR. BUTLER:

6 Q. First of all, Mr. Rees, I would like to
7 clarify what I think is an ambiguity in the record
8 with regard to meet point billing private line
9 services as it exists today as opposed to how it might
10 be in the future if GTE's primary toll carrier's
11 proposal is actually implemented. Am I correct that
12 today if a private line is provided to a customer and
13 that line extends from U S West's territory into the
14 territory of another local exchange company, for
15 example, GTE, that in fact U S West's retail private
16 line rates are charged to the end user customer for the
17 entire circuit but that U S West pays a special access
18 charge to GTE for that portion of the line which
19 extends into GTE territory?

20 A. That's my understanding.

21 Q. So from an end user customer standpoint we
22 do not have meet point billing today; is that correct?

23 A. That's correct in the state of Washington.
24 We do have in most every other state that U S West
25 operates.

1 Q. And that if the GTE primary toll carrier
2 proposal is implemented, there very well may be meet
3 point billing between U S West and GTE territories?

4 A. That's my understanding.

5 Q. But not to any of the territories of other
6 local exchange companies, correct? Those will
7 continue as they are today?

8 A. I believe that's correct.

9 Q. Thank you. I believe that's correct, too.
10 Just to clarify, Ms. Santos-Rach is the witness that
11 would testify about or testify to all questions
12 concerning the cost studies in the support for the
13 prices that are offered in this proceeding; is that
14 correct? You're not prepared to deal with those?

15 A. That is correct.

16 Q. But you would be the witness that could
17 testify about applications for various private line
18 services or terminal loop services?

19 A. Yes, that's correct. I might have to have
20 Ms. Rach's assistance in some areas.

21 Q. If a customer is to use a terminal loop to
22 provide an off-premises extension function, am I
23 correct that if your proposal is approved that that
24 customer would be purchasing voice grade 32 service out
25 of the private line tariff? Is that the translation

1 that we're looking for here?

2 A. Some terminal loops would also be voice
3 grade 33, for instance, on tie lines.

4 Q. Let's talk specifically right now about an
5 off-premises extension and then I will go to the tie
6 line. Just the off-premises extension that would be --

7 A. Voice grade 32 would generally be it out of
8 the voice analog service.

9 Q. And then the ties lines would be voice
10 grade 33; is that correct?

11 A. Yes.

12 Q. In your response to DIS request 02-020 --

13 A. Would you like me to look that up?

14 Q. Yes, please, if you could.

15 A. That's DIS-02-020?

16 Q. Yes.

17 A. I have that.

18 Q. There you were asked about applications for
19 voice grade 32 service. And you were specifically
20 asked whether U S West customers used voice grade 32
21 lease types LA, LB, LC and LS service to provide
22 anything other than extensions to PBXs, and your
23 response was that those services are designed to
24 specific standards to PBX interface capabilities, but
25 you do not or cannot control or monitor

1 customer-specific use. Do you know of any other
2 applications for voice grade 32 service other than
3 extensions to PBXs?

4 A. I personally don't. I asked our channel
5 provisioning people and they said that it's certainly
6 possible that a customer may come up with some sort
7 of a device that might have similar interface
8 requirements, but they weren't aware of any specific.

9 Q. So as far as you know, that is the
10 application?

11 A. By far and above the vast majority of them
12 are for PBXs.

13 Q. And DIS 02-021 you were asked a similar
14 question with regard to voice grade 33 service and
15 your response was those are designed to specific
16 standards to PBX interface capabilities connecting
17 switches together, and I take that to mean for the tie
18 line application that we were discussing a minute ago;
19 is that correct?

20 A. Yes.

21 Q. And again, with respect to this question,
22 do you know of any other applications for voice grade
23 33-type services other than for tie lines?

24 A. No. I don't especially. The answer,
25 however, does say possibly.

1 Q. It's possible, but --

2 A. Somebody could be inventing something right
3 now that would use it.

4 Q. I'm a little reluctant to do this, and tell
5 me if you're not comfortable doing it, but I would
6 like to just ask your assistance and help me track
7 from the existing terminal loop tariff to the private
8 line tariff that you're proposing would be applicable
9 to terminal loops. Now, in the existing terminal loop
10 tariff there are three different loop signaling
11 arrangements furnished for PBX off-premises extension,
12 a type A, a type B and a type C; is that correct?

13 A. That is correct.

14 Q. And the type A is for class A PBX station
15 ports capable of operation over loops with resistance
16 in the range of zero to 199 ohms?

17 A. That is correct.

18 Q. Does that translate to voice grade 32 loop
19 start signaling type LA?

20 A. That is correct.

21 Q. And the type B and the existing terminal
22 loop tariff which is for loops with resistance in the
23 range of 200 to 899 ohms, does that translate to type
24 LB?

25 A. The protocol is LB, correct.

1 Q. And type C which in the existing terminal
2 loop tariff which is for loops with the resistance of
3 the range of 900 or more ohms, that's type LC?

4 A. That is correct.

5 Q. In the private line tariff there is also a
6 type LG, a type LO and a type LS under the category
7 voice grade 32 loop start signaling. Would you tell
8 me what an LG and an LO are?

9 A. An LG would be also a loop signaling type,
10 but it's for a class A port PBX but it has a different
11 type of signaling on it. I believe it's called
12 regenerated -- let me be very specific. I have a part
13 of the specific here and I can tell you directly what
14 that -- I'm referring to technical publication 7731
15 which lists all the protocols. LG is the protocol
16 that is defined as loop start signaling class A
17 registered port open end with repeated ringing.

18 Q. Is that a commonly used arrangement from a
19 customer standpoint? Do you have much demand for
20 that, do you know?

21 A. I don't know. The LA would be by far the
22 most used protocol for a class A PBX.

23 Q. A loop start type LO, am I correct that that
24 is a type of loop start service that applies to loops
25 between the central office and PBXs for PBXs without

1 FCC-registered ports with a standard interface of 600
2 ohm impedance?

3 A. Subject to check, I would accept that.

4 Q. Am I correct that loop start types LA, LB
5 and LC are for the loops between the PBX and the
6 central office?

7 A. That's correct.

8 Q. And the loop start signaling type LS, that
9 is for the loops between the central office and the
10 off-premises station?

11 A. That is correct. The closed end, as we
12 call it.

13 Q. When you've got a type C arrangement or be
14 it type LC under the private line tariff, I understand
15 that that is designed for resistance exceeding 900
16 ohms?

17 A. Yes.

18 Q. If a customer orders that type of channel
19 performance, does U S West provide the necessary
20 amplification to reach 900 ohms or do you permit some
21 range above 900 ohms?

22 A. The PBX is capable of operating loops out to
23 900 ohms. U S West would insure that the transmission
24 for that particular circuit stayed at 4DB level, so the
25 transmission is certainly an important part of the

1 discussion here as far as an LC.

2 Q. What I'm curious about is I've been told,
3 for example, that a Rolm PBX has something called an
4 OPS card station port that will operate into a type
5 C loop up to 1200 ohms. And my question was, really, if
6 a customer is faced with that situation and they order
7 the type LC channel performance, are you going to
8 provide the amplification to bring it to 900 or just
9 to 1200? Let me just leave that question.

10 A. We're not trying to introduce the
11 resistance of 900 or 1200. The reference to the
12 resistance that you have mentioned is what that PBX is
13 capable of handling on a loop. What U S West will do
14 is to take into consideration the power or the signal
15 from that PBX and insure that the transmission levels
16 meet the specifications of the manufacturer, and so we
17 use that class C port as a starting point, and we can
18 determine what additional channel performance is
19 required to maintain the levels that would give them
20 the quality service that the specific asks for.

21 Q. Are you using the 900 ohms as the
22 reference?

23 A. 900 or 1200, whichever is in that
24 specification. The channel interface that the channel
25 -- the circuit providing center would work with would

1 be based on whatever the specifications of the
2 manufacturer required.

3 Q. Am I correct that as that number gets
4 bigger, in layman's terms, the quality of the circuit
5 goes down? So, in other words, the type A is a higher
6 quality than the type C?

7 A. No. It's just the reverse.

8 Q. It's the reverse?

9 A. That is correct.

10 Q. Can you explain to me why the loop start
11 signaling type LA is significantly more expensive to
12 provide than the type C?

13 A. The A port is only capable of handling out
14 to the 199 ohm level. Therefore we have to provide
15 additional transmission capabilities to handle a
16 circuit that's of some length while the one that has
17 capability out to 900 ohm or above has more power, if
18 you will, so there's not as much requirement for
19 amplification on the part of the company to maintain
20 the transmission levels on the NAC.

21 Q. Right. So maybe I'm just talking in exact
22 opposites from you. You are providing in effect a
23 higher quality to the type A than you are to the type
24 LC, correct?

25 A. We have to add additional transmission.

1 Q. We're on the same wavelength, yes.

2 Am I correct that the type LA requires you to put
3 equipment on the customer premises?

4 A. We might. The equipment could go on the
5 customer's premises somewhere on the circuit itself or
6 within the central office.

7 Q. And that would would not be true
8 necessarily for LB or LC?

9 A. It could be the same, depending on the
10 length of the circuit and so forth, whatever would be
11 required to build the circuit out to meet the
12 transmission requirements of the manufacturer's
13 specification.

14 Q. Just have a couple of more questions here.
15 Ms. Owen in her testimony, Exhibit T-1 at page 5, line
16 14, talked about the importance of product strategy in
17 setting the price for any service, and she referred to
18 you questions about product strategy for terminal loop
19 services. First let me ask you, with respect to that,
20 in coming up with a product strategy for terminal loop
21 services, did U S West consider migration of customers
22 to other U S West services by increasing the price of
23 terminal loop service?

24 A. Migration only to the private line
25 transport service equivalent service.

1 Q. I understood that one of your responses to
2 a question from Ms. Marcus was that customers had an
3 alternative of using standard business lines for an
4 off-premises extension?

5 A. That's certainly an alternative.

6 Q. Based upon the experience that you had in
7 Oregon when you increased the terminal loop rates up
8 to the private line tariff prices, did you experience
9 any migration of customers from terminal loops to
10 standard business lines?

11 A. Yes, and that's included in the repression
12 figures that we've included in the revenue. We're not
13 sure where those customers might end up, whether
14 they're on 1FBs or some other type of service or
15 whether they dropped the service altogether.

16 Q. Well, would you think that a customer
17 looking for an alternative for terminal loops, say for
18 an off-premises extension-type application, would
19 consider in addition to a standard business line
20 switching to a Centrex-type service?

21 A. Possibly.

22 Q. Would you consider an alternative for that
23 customer of switching to, perhaps if you were to offer
24 it, a fractional T-1-type service?

25 A. Possibly, and again, it would be an

1 economic decision that the customer would have to make
2 depending on the various prices and their particular
3 needs.

4 Q. In developing your product strategy for
5 terminal loops, did you consider these alternatives
6 for customers in making your decision to change the
7 prices of terminal loops?

8 A. No.

9 Q. Is your product strategy for terminal loops
10 memorialized in a document?

11 A. We did provide one strategy document in
12 response to one of the numerous interrogatories.
13 Basically it indicates that the strategy for terminal
14 loops is to raise the price to cost by moving it to
15 the equivalent service in the private line transport
16 service tariff.

17 Q. Is there some other document addressing
18 product strategy that's in use in the marketing group
19 or whatever it is that has responsibility for terminal
20 loop services?

21 A. No.

22 Q. Is there any other document that
23 memorializes the strategy, product strategy for
24 terminal loops, that discusses reasons for increasing
25 the price other than simply a desire to merge it into

1 the private line tariff?

2 A. There's no document that I'm aware of.
3 Again, the basic intent here is to insure that like
4 services are priced the same. We can't afford to have
5 two different services going forward that have
6 basically the same services priced at two different
7 levels is what I'm suggesting. That's actually a
8 violation of some statutes in this state where you
9 can't discriminate against customers that are using
10 these services.

11 Q. Are you aware of any document which
12 discusses what customers are likely to do in response
13 to this proposed price increase if it's approved --

14 A. No.

15 Q. -- in terms of seeking alternative
16 services?

17 A. No.

18 Q. When you considered the effects of
19 repression in making your revenue impact analysis in
20 this filing, what services did you assume customers
21 were going to purchase or did you simply assume that
22 they were going to discontinue service?

23 A. The basic approach to the repression
24 analysis is that the customer will discontinue the
25 service in question.

1 Q. And so a customer that has a need to
2 communicate with a remote location will simply not
3 communicate with it? Was that the assumption?

4 A. In the repression analysis you would be --
5 we did not take into consideration any alternative
6 services.

7 Q. You stated in response to -- my last
8 question. You stated in response to a question from
9 Liz Marcus that channel performance is always required
10 for a terminal loop, is that correct, or were you
11 talking generically about private line service?

12 A. Let me take that in two steps. Terminal
13 loops when designed do require transmission and
14 signaling design. Therefore, they have channel
15 performance activity performed although they're not
16 being charged. Terminal loop does not have a charge
17 for channel performance. By the same token, the same
18 service on the private line transport service tariff
19 side has a NAC and a channel performance. Both are
20 charged individually. They're the same service that's
21 charged two different rates. They're the same cost,
22 but we don't charge for the channel performance nor do
23 we charge sufficiently for the term loop to cover
24 costs.

25 Q. Putting aside the question what you charge

1 for it and focusing only on what you actually have to
2 do to provide the service, is it the case that there
3 are some loops, NACs, whatever you want to call it,
4 that are short enough, customer location is located
5 close enough to the central office that no additional
6 equipment is required to maintain required signal
7 quality?

8 A. No.

9 Q. Are you familiar at all with the CTEC study
10 that's been cited in support of the cost figures in
11 this case?

12 A. I know the CTEC study is part of
13 Ms. Santos-Rach's cost analysis.

14 Q. But beyond that you're not familiar with
15 it?

16 A. No, I'm not.

17 Q. Then I will save my questions with respect
18 to that. I lied. One more question for you. You
19 had a discussion yesterday about price elasticity for
20 terminal loop services, and your response was that the
21 figures cited in the responses to data requests was
22 applicable to the current price levels for terminal
23 loop services. Can you tell me what the price
24 elasticity estimate is for private line services?

25 A. I don't know that figure.

1 MR. BUTLER: Can I make that a record
2 requisition for that, next one, please. I believe
3 that's 6.

4 JUDGE CANFIELD: Next one would be No. 7,
5 record requisition No. 7.

6 (Record requisition 7.)

7 MR. BUTLER: Thank you, Mr. Rees. I have
8 no further questions.

9 JUDGE CANFIELD: Thank you for being brief
10 in your questions, Mr. Butler. Mr. Kopta.

11

12 CROSS-EXAMINATION

13 BY MR. KOPTA:

14 Q. Morning, Mr. Rees. My name is Greg Kopta.
15 I'm representing Digital Direct of Seattle and TCG
16 Seattle. I have a few questions for you.

17 A. Morning, Mr. Kopta.

18 Q. Ms. Owen testified yesterday that for those
19 services in this filing in which the rates are being
20 increased the justification is to allow those services
21 to recover their costs and only for those services in
22 which there is a decrease is one of the elements of
23 justification the desire to meet or to consider
24 competitive market conditions in setting the price.
25 Is that something that you would agree with?

1 A. Yes.

2 Q. Now, in your testimony the only service
3 that I see in which there is a decrease is the remote
4 central office service; is that correct?

5 A. That is correct.

6 Q. And that is, as I understand it, the
7 ability to get dial tone from a central office other
8 than the one that normally would provide dial tone; is
9 that correct?

10 A. Yes, within the same exchange; however, a
11 different wire center.

12 Q. Why would a customer -- just to educate me,
13 why would a customer opt for this particular service
14 or need this particular service?

15 A. To demonstrate a presence in that other
16 central office perhaps. That exchange, that telephone
17 number may have been important to that customer.
18 There's a number of reasons, and I'm sure that I
19 wouldn't be able to quote them all. Each individual
20 customer would have a reason.

21 Q. I just wanted an idea of what sort of --
22 aside from the general definition what sort of use
23 this particular service would be to customers. So,
24 for instance, one of them would be if you changed
25 business location within the same exchange but you

1 wanted to keep the same number that ordinarily would
2 not be routed through the exchange that they're now
3 closest to that they could go ahead and get it routed
4 through this other exchange, central office?

5 A. Using the foreign central office service
6 that's proposed, that's correct.

7 Q. You did not break down the various revenue
8 impacts of the various services. What is the revenue
9 impact of the decrease in rates for the central office
10 service, amongst central office services?

11 A. I thought I had that on Exhibit 8. Did I
12 miss that? I believe that's shown on page 2 of
13 Exhibit C-8.

14 Q. Well, I'm not finding it right off the top.

15 A. On the bottom of page 2 of Exhibit C-8 you
16 will notice FCO.

17 Q. Okay.

18 A. Fairly small impact.

19 Q. Right. In price can this particular
20 service -- did you analyze the competitive market
21 conditions in setting a price?

22 A. This was a pretty small service and we
23 didn't do any outside analogy of the competitive
24 impact.

25 Q. So this service is not priced according to

1 an analysis of competition for provision of this
2 particular service?

3 A. Our pricing point was established at what I
4 would call a reasonable price over cost, a reasonable
5 amount over cost I should say, and that's about all.

6 Q. Do you know who else besides U S West would
7 provide this service in competition with U S West?

8 A. No, I don't.

9 MR. KOPTA: That's all I have. Thank you.

10 JUDGE CANFIELD: Mr. Harlow, you had a few
11 questions.

12 MR. HARLOW: Very briefly, Your Honor.

13

14 CROSS-EXAMINATION

15 BY MR. HARLOW:

16 Q. In response to questions by Ms. Marcus
17 regarding whether or not you had looked at the loop
18 lengths of term loops compared to the loop lengths of
19 private lines, you indicated -- you stated it was all,
20 quote, the same service. Do you recall that?

21 A. That is correct.

22 Q. Tell me what you mean. How would you
23 define when a service is the same service as another
24 service?

25 A. When we're talking about the loop study

1 that I referred to, I'm indicating that a loop is a
2 loop, and so we looked at all of the NACs which include
3 the term loops as well as the private line transport
4 service. And because all the NACs from the very
5 shortest to the very longest were included in the
6 study, I indicated that therefore terminal loops as
7 well as the private line transport service NACs are
8 all included in the study.

9 Q. Does that mean that any service that
10 includes an NAC as one element of that service the
11 cost for the NAC should be the same in all the
12 services?

13 A. The NAC of the same length would be the
14 same cost.

15 Q. All right. But in terms of when you're
16 doing a cost study to determine what the overall cost
17 is for a given service, you have to use an average NAC
18 length; isn't that correct?

19 A. We're getting into an area that was
20 specifically included in the cost analysis. If you
21 could refer those questions to Ms. Santos-Rach she
22 will give you all the detail that you could ever want
23 on how those loops were included in that study.

24 Q. Well, I guess I'm more specifically trying
25 to find out what you mean by it was the same service

1 response to Ms. Marcus' questions, the responses that
2 you made. Before we leave that, I want to make sure we
3 get what your testimony was based on in response to her
4 questions.

5 A. Fine.

6 Q. What I'm trying to get at is, you indicated
7 that there was no difference between the two services
8 because you characterized them as the same service.
9 Does that mean that a NAC is always the same service
10 regardless of which name you put on the service, term
11 loop, private line, whatever?

12 MR. SHAW: I will object to the question
13 because it's misleading. The witness has never
14 defined NAC as a service. The services under
15 consideration are private lines and term loops of
16 which NAC is a common element.

17 JUDGE CANFIELD: Maybe you can get your
18 question rephrased, Mr. Harlow.

19 Q. Well, let me try it another angle. Is
20 business exchange service, would you characterize that
21 as being the same service as residence exchange
22 service?

23 A. Functionally equivalent services, and I
24 think we mentioned that in one of our interrogatories
25 that that would be an example of two services that are

1 functionally equivalent but priced differently.

2 Q. Does that indicate that if you did a cost
3 study for those two services that the cost to provide
4 those two services should come out the same?

5 A. For the NAC, which would be the loop --

6 Q. Wait a minute. We're talking about
7 services. Your counsel objected and said the NAC
8 isn't a service, so I'm talking about the overall
9 service now, business versus res exchange service.
10 Should the total cost for those two services come out
11 the same?

12 A. The service itself costs different, whether
13 it's a 1FR or 1FB.

14 Q. Why would the service cost differ if it's
15 the same service?

16 A. We're trying to compare the loops, I
17 thought to start with, and now we're getting into the
18 services. They're functionally equivalent; they're
19 not technically equivalent in some cases.

20 Q. What technical differences do you have in
21 mind?

22 A. In some cases the business line would have
23 more usage, less usage, perhaps the loops are a
24 different length on average. So if we were looking at
25 the class of service called business, we would exclude

1 the residence service for a moment and just look at
2 those particular loops. If we wanted to look at them
3 in total, then that would probably indicate that the
4 average NAC would be very similar in cost.

5 Q. So now you're saying that if the services
6 have different average loop lengths and different
7 average usages that you might develop different cost
8 studies for those two services even though they would
9 be classified by you as the same service?

10 A. There's many reasons why the costs would be
11 different.

12 Q. Is that a qualified yes to my answer?

13 A. Yes.

14 Q. Let's get back to Ms. Marcus' questions
15 then. Based on the testimony you've given in response
16 to my questions, why didn't you look at the loop
17 lengths, average loop lengths, of term loops and
18 private lines to determine if there were differences
19 there?

20 A. It's not a fair comparison between a 1FR
21 and a 1FB and talking about a material loop and a
22 private line transport service tariff service, and so I
23 will talk specifically about terminal loop and private
24 line transport service. Voice grade 32 or 33 compared
25 to something that has a term loop. They're identical

1 services. They're provisioned exactly the same, so
2 let's take, for instance, a very specific PBX off-prem
3 extension. We have exactly the same capabilities,
4 they're the same function. Technically they are
5 provisioned in the same manner. They have the same
6 equipment in the central office around the customer's
7 premises. So when you're talking about exactly the
8 same loops and the same type of equipment on them, they
9 would be exactly the same cost.

10 Q. Let me stop you for a second. How do you
11 know they're exactly the same length loops if you
12 didn't study that? Is that an assumption the company
13 made in studying the cost of these two services?

14 A. I'm not indicating that all loops are the
15 same length. Each terminal loop service would have a
16 specific --

17 Q. Let me stop you. Just talking about
18 average lengths across the service. How do you know
19 that the average loop lengths of term loops are the
20 same as the average private line lengths?

21 A. They are the same type of loops so we have
22 one average.

23 Q. And how do you define type of loop as used
24 in that answer?

25 A. A loop is a loop. I'm not trying to make

1 any difference between the two.

2 Q. Well, if a loop is a loop, getting back to
3 the residential business example, how do you decide --
4 let me just ask you. Obviously you're applying a
5 different standard, is that right, that when you're
6 looking at private line versus term loops you're
7 willing to say a loop is a loop and therefore we'll
8 assume that the cost is the same; is that correct?

9 A. Correct.

10 Q. But apparently you make a distinction
11 between residential and business. You're saying,
12 well, there we need to look at the differing average
13 loop lengths between businesses and residence; is that
14 correct?

15 A. I have to qualify it by saying that if you
16 had a loop -- let's just talk about the loop for a
17 moment for a residence service versus a business
18 service. The loop is the same length, probably the
19 cost would be the same on average, but there are some
20 business services that might be a mile -- have a mile
21 loop that would be on one type of carrier or one size
22 cable pair, whether it's 26 gauge or 24 gauge or so
23 forth, it might be a different cost in a one-mile
24 residential loop, but what we've tried to do in the
25 case of term loops and private line is to come up with

1 an average cost for those loops, and we've looked at
2 all the loop lengths from the very shortest to the very
3 longest and come up with a cost on average for those.

4 Q. What I'm trying to get at is why for term
5 loops and private lines are you willing to assume that
6 they're the same, same length on average, and for
7 residence versus business you change your approach,
8 basically?

9 A. They're different services; one is for
10 residence and one is for business. Different class of
11 service.

12 Q. So now you're saying they're different
13 services, not the same service? We started out this
14 line of questioning, I asked, are they the same service
15 and you said, yes, they're functionally equivalent.

16 A. I'm sorry if I said residence and business
17 were the same service. I misspoke, because they are
18 not the same service.

19 MR. SHAW: Your Honor, I'm going to object
20 at this point. We've gone over and over it.
21 Obviously this Commission has long considered business
22 and residential service as different services for very
23 fundamental policy reasons which is not the case with
24 term loops and private lines and this is badgering the
25 witness on this subject, is totally nonproductive.

1 JUDGE CANFIELD: I think the witness
2 certainly clarified his last response where he's
3 coming from on that so I think he's answered that, so
4 any further questions, Mr. Harlow.

5 Q. Do you consider all business exchange
6 services to be, quote, the same service as you use
7 that term?

8 A. No.

9 Q. How would you distinguish between various
10 business exchange services?

11 A. A trunk facility is different than a 1FB.

12 Q. They're technically different?

13 A. Yes, they are.

14 Q. Is a 1FB different than a 1FL?

15 A. I can't answer that. I'm not familiar
16 enough with the nomenclature that you just gave me.

17 MR. HARLOW: That's all I have, Your Honor.

18 JUDGE CANFIELD: Thank you. And lastly,
19 Mr. Trotter.

20

21 CROSS-EXAMINATION

22 BY MR. TROTTER:

23 MR. TROTTER: Thank you.

24 Q. Couple of follow-ups to start with,
25 Mr. Rees. You made a response and you cited or made

1 reference to the discrimination statute. Do you
2 recall that answer?

3 A. Yes, I did.

4 Q. Was your statement based on any legal
5 advice that has been provided to you in this case?

6 A. Yes.

7 Q. Have you been advised that the current
8 pricing structure violates Washington statute?

9 A. There are two things that I understand
10 would come in conflict with those discrimination
11 statutes. One is that you should not unduly
12 discriminate between two customers as far as price is
13 concerned. Another is that you should not
14 discriminate against another provider. In that case
15 it's an element of prices below cost. It's the MFJ-
16 type argument, anticompetitive approach.

17 Q. I want to focus on the statute that you
18 referred to. You said it was state statutes and the
19 MFJ is not a state statute, is it?

20 A. No, because it's -- what I was referring to,
21 the MFJ and that discrimination statute, has some
22 similarities.

23 Q. I want to focus on the state statutes that
24 whatever it was that you referred to in your testimony
25 on the stand. I don't want to have within the scope of

1 my question the MFJ for now. Have you been advised
2 that the current rate structure is in violation of the
3 state statutes regarding undue discrimination?

4 A. That is correct.

5 Q. And is that advice -- was that advice in
6 writing?

7 A. No, sir.

8 Q. And who gave you the advice?

9 A. My counsel at the table.

10 Q. Mr. Shaw?

11 A. Yes.

12 Q. With respect to the history of the terminal
13 loop service, I believe there was some discovery
14 requests asking for how terminal loops got established
15 in the state of Washington. Do you recall those
16 generally?

17 A. Yes, I do.

18 Q. And am I correct that the company's
19 response was, again in the general sense, that you look
20 back to when PNB first filed its tariffs, I think in
21 the early '60s?

22 A. 1961, I believe.

23 Q. And they were part of the tariff then?

24 A. Yes.

25 Q. And that the assumption was made that they

1 were part of the tariff of the predecessor of PNB but
2 you didn't know for sure.

3 A. I could not find records before 1961.

4 Q. And did you do any investigation among U S
5 West personnel to determine -- personnel or other
6 records or any kind of search to determine what began
7 the terminal loop tariff structure?

8 A. I've asked other people at the company and
9 they can't recall either. I've been around as long as
10 most of the folks I was able to find, and at this
11 point I hadn't found anybody that has specific
12 information on why the terminal loops were started
13 back whenever they were. I assume several years
14 before 1961.

15 Q. You were asked some questions from staff
16 regarding why the company did not make this filing
17 sooner, and your response was that you had no good
18 opportunity because the AFOR called for mostly rate
19 reductions and you went on to explain that. Do you
20 recall that?

21 A. Yes.

22 Q. This current filing is under the AFOR on
23 text, isn't it?

24 A. Yes.

25 Q. And so could you just explain why your

1 prior response was that the AFOR posed a problem and
2 yet now it's being filed under the AFOR, so if you
3 could respond to that general question, why couldn't
4 you do it sooner since you're still doing --

5 A. It's an issue of opportunity. At this
6 point we did have some services that were available
7 that the product managers wanted to reduce costs, so we
8 did have an offset to meet the requirements of the
9 Commission as far as the AFOR.

10 Q. And those product managers did not have
11 that need two years ago?

12 A. Apparently not.

13 Q. So it's not an AFOR problem. It's a
14 problem of finding offsetting decreases?

15 A. AFOR is a part of it, but you're absolutely
16 right. If we have offsets then we can certainly work
17 with the Commission to see if that meets their
18 requirements.

19 Q. So the AFOR issue is that you have to do a
20 revenue-neutral filing?

21 A. That is correct.

22 Q. Does that mean that the company's position
23 on the complex/simple line definition and the reduction
24 in basic business exchange rates is a very recent issue
25 for the company like when you filed this case?

1 A. I have to direct that question to Ms. Owen.
2 I'm not familiar enough with the product management
3 aspects of that particular service.

4 Q. But I take it if it was recognized as an
5 issue when the AFOR was first established, it could
6 have been filed when the AFOR was first established,
7 couldn't it?

8 A. Would you repeat that.

9 Q. This issue about the need for these
10 particular offsetting decreases was recognized when
11 the AFOR -- at the time the AFOR was first established,
12 this filing could have been filed shortly after the
13 AFOR was first established, couldn't it?

14 A. It was certainly possible.

15 Q. Turn to your testimony on page 9.
16 You were asked a question on line 13 about consistent
17 rate structures in all U S West state jurisdictions and
18 you referred to multistate customers preferring
19 standard products. On line 23. Do you see that?

20 A. Yes.

21 Q. Now, I take it by multistate you mean --
22 well, drop that. If a customer operates in two states
23 that would beg the question of whether the uniformity
24 needs to be in which state if you had a different rate
25 structure --

1 A. I understand what you mean. Yes.

2 Q. So we're talking, I guess, about customers
3 that may operate in three states. Do you know how
4 many of your customers fit that profile?

5 A. Several, but I don't know the answer to
6 that. Whether it's three states or five states or all
7 14, there are a number of our customers that are
8 multistate.

9 Q. But you don't have an estimate as to what
10 percentage?

11 A. No, I don't.

12 Q. Are any of the customers represented at the
13 table here, have they expressed concern for uniformity
14 in your products and services?

15 MR. SHAW: Your Honor, I object that we
16 can't possibly answer that because we don't know what
17 customers are here given the trade associations that
18 are at the table, TCA and Tracer, their membership is
19 not of record.

20 Q. Are you generally familiar with who the
21 members of Tracer are?

22 A. Large business generally, I believe.

23 Q. Let me put it to you this way. Let's talk
24 about the public entities, municipalities of cities
25 and the state. Have you heard any complaints from

1 them about the need for uniformity in tariff
2 structures?

3 A. I'm trying to think back of all the
4 discussions I've had with the various product
5 management people and so forth. And I can't recall
6 whether or not any of our business and government
7 services people have commented on that to me or not.
8 It would be only logical that they would like to have
9 uniformity, single point of contact and that type of
10 thing for their services.

11 Q. If this tariff is not approved, as the
12 current situation stands, would there be two points of
13 contact or different points of contact than there would
14 be if the tariff is approved?

15 A. There would be one point of contact through
16 the business office in perhaps the state of
17 Washington. However, currently before we go to our
18 regional services there could be multiple points of
19 contact today for a multistate customer.

20 Q. So you're talking some point down the line
21 you're going to regionalize your service initiation
22 and service change --

23 A. We're in the process of doing that now.

24 Q. And in the process of doing that, there
25 will be accommodations made for the rate structures in

1 each state; is that correct?

2 A. Yes.

3 Q. What is the cost savings to the company of
4 having a rate structure the same in every state versus
5 having the rate structure somewhat different in every
6 state?

7 A. I haven't made any cost calculations in
8 that. Just to make that study would be fairly
9 dramatic. I don't know what that cost savings would
10 be. It's just intuitively obvious to have one set of
11 methods and procedures over having to have several
12 would be a cost saving in itself from the training
13 standpoint, from the production of the methods and
14 procedures, even to the point of the provisioning for
15 that particular service.

16 Q. Have those costs, those substantial cost
17 savings, been passed through to customers in the cost
18 study?

19 A. Those cost savings will be in the form of
20 personnel expenses and things of that nature that will
21 be reflected going forward.

22 Q. So the regionalization effort that you're
23 undergoing now has been fully reflected in the cost
24 studies?

25 A. I don't believe they have, but you will

1 have to ask Ms. Santos-Rach.

2 Q. You were asked a hypothetical from counsel
3 for city of Bellevue regarding a rate going from \$6 to
4 \$45. Do you remember that?

5 A. Yes.

6 Q. And I was unclear whether that was a
7 correct rate change. Was it correctly \$6 to \$45 or
8 should it have been \$12 to \$45?

9 A. The discussion we had upon reflection
10 talked about two term loops; each term loop would be
11 \$6 and so there would be a total of \$12 going up to
12 the \$45 figure.

13 Q. I would like to talk a bit about this
14 channel performance issue. I would like to come at
15 it, when a customer purchases -- first of all, could
16 you just tell me what signaling is exactly.

17 A. Signaling in the description that we have
18 would be referring to things such as dialing and
19 ringing.

20 Q. So when I pick up a phone and push the
21 buttons that signal will get to the switch?

22 A. That's a form of signaling, yes.

23 Q. And so would I be correct if I'm a
24 residence customer or a business customer my line
25 needs signaling capability; is that correct?

1 A. That is correct.

2 Q. And do you include signaling capability or
3 channel performance, I guess, when you provision --
4 when you charge for a 1FB line?

5 A. All of the circuits are designed out of the
6 central office to have the capability of ringing and
7 signaling, so there is an element in the design of the
8 outside plant, the central offices and so forth to
9 take that into consideration.

10 Q. Now, what is your 1F -- I guess we can't
11 get into the cost of a 1FB, but if I looked at your
12 cost study for a 1FB, a flat business line, would I see
13 in there a discrete cost for channel performance for
14 signaling?

15 A. I would have to refer those cost issues to
16 Ms. Santos-Rach.

17 Q. Conceptually should it be taken into
18 account?

19 A. Conceptually the circuits are designed to
20 meet transmission performance that talk well for one
21 flat business or a residence line or whatever. What
22 we're talking about on the private line transport
23 service or term loops are dedicated nonswitched point-
24 to-point type services which would be different than
25 what we have with the 1FB and 1FR that are switched

1 service right out of central office, so there's not a
2 direct comparison that could be made.

3 Q. Wouldn't the direct comparison be from the
4 exit part of the switch to the customer premises?
5 Isn't the line provisioned the same way for a term loop
6 versus a 1FB?

7 A. No, it is not.

8 Q. What's different about it?

9 A. There is no design required for each
10 individual circuit like we have for a private line
11 transport service.

12 Q. So if I was to say it's just a copper wire,
13 a copper wire is a copper wire is a copper wire, that
14 would be wrong? If we're looking at that copper wire
15 going to a business or a residence or a term loop? And
16 again just focusing on the -- we're just looking at
17 after it leaves the switch.

18 A. A copper wire is a copper wire of different
19 distances and the size of the wire. Some have carrier
20 on them. Some may be just a hard metallic copper.

21 Q. But that could be true for residence -- you
22 have residence customers on carrier, don't you?

23 A. I presume that there are some that would be,
24 particularly on the interoffice facilities.

25 Q. Let's take a simple intraoffice line of a

1 short distance that normally would not involve carrier,
2 and I asked you to look at the facility after it
3 leaves the switch or it leaves the central office
4 and look at it 1FB line, a 1FR line and terminal loop.
5 Would you be able to tell the difference?

6 A. Just by looking at it, no.

7 Q. I assume by testing it, could you tell the
8 difference?

9 A. Certainly.

10 Q. And the testing is that the 1FB and the
11 1FR you could somehow detect signaling capability but
12 on the --

13 A. One is a switched service, which would be
14 the residence line, while the private line transport
15 service is not a switched service.

16 Q. Any other differences?

17 A. Well, all the equipment that would be
18 required to make that private line service work. It
19 has to be specially designed to meet the requirements
20 of the equipment on each end.

21 Q. I'm just talking about the channel
22 performance at this point. Just testing the line
23 itself.

24 A. Testing the line is part of the channel
25 performance, the capability.

1 Q. Well, let me try something else. Let's go
2 to Exhibit 5, last page. You were asked some
3 questions yesterday about voice grade basic no
4 signaling which is the second to last line on this
5 page, \$1.50 is the monthly rate. Do you see that?

6 A. Yes. For the channel performance.

7 Q. Right. So if I'm a customer and I want
8 this, currently -- excuse me -- on the proposed basis
9 I'm going to pay \$9 for the loop and then \$1.50 for
10 the channel performance?

11 A. If you have a service that could use that,
12 and each customer would have to make that decision
13 themselves, that's correct.

14 Q. Okay. Now -- and that's opposed to the --
15 never mind. What do I get for my dollar and a half?

16 A. Pretty much a bare wire that it can be on
17 carrier, we can't guarantee that it would have metallic
18 continuity, but it would be a facility without any
19 transmission capabilities guaranteed.

20 Q. So there is -- so the customer asks for
21 that service, it's installed and it may work fine for
22 voice grade class of service?

23 A. Probably would have to put some sort of
24 transmission equipment on themselves, perhaps, to meet
25 the levels. That would certainly be something that

1 would have to be designed by the customer to insure
2 that it met their requirement. It's pretty much just
3 a basic facility that we can test for continuity and
4 that's about all.

5 Q. Now, I noticed in looking at this USOC
6 code, I didn't see a cost for that item. Can you help
7 me with that?

8 A. I don't have the costs for that item. I'm
9 sure Ms. Santos-Rach might have one.

10 Q. Do you know if that's priced over cost or
11 do you know?

12 A. This is an existing service in the private
13 line transport service tariff, and I don't have the
14 cost breakdowns for those with me, unfortunately.

15 Q. Now, a sophisticated customer might be
16 perfectly happy with that service, mightn't they?

17 A. They wouldn't be very happy with it if it
18 failed to meet their requirements.

19 Q. And if it failed to meet the requirements,
20 they could purchase channel performance of a higher
21 degree?

22 A. They would have to go to a different voice
23 service, that's correct. Now, there are some
24 sophisticated customers that might be able to use that
25 voice grade basic with no signaling and put their own

1 transmission equipment on it and make it work just
2 fine, but I would have to indicate the customer would
3 have to be fairly sophisticated to be able to do that.

4 Q. Now, if a customer calls U S West and wants
5 a voice grade terminal loop-type service and your
6 filing is approved, who will notify them that this
7 option is available or would you simply ask, what are
8 your transmission requirements and then go right into
9 the other channel performance standards?

10 A. What we will do if this tariff is approved
11 is to convert the customer to identically same service
12 that they have today which, as I've indicated, the
13 terminal loops are designed today in the same manner as
14 they would if they were a private line transport
15 service out of the voice grade 32 category. So we
16 would -- we already have that provisioned in a manner
17 that we could convert directly to the channel
18 performance that is being provided today.

19 Q. So if they wanted this voice grade basic,
20 they could just terminate their existing service, pay
21 a \$9 nonrecurring charge, take the new service?

22 A. We would have to advise them of the
23 capability. If they did that it would be at the risk
24 that this service may not provide the transmission
25 that they need.

1 Q. And if it doesn't they will have to pay a
2 nonrecurring charge at the new level as well as the
3 monthly charge?

4 A. Upon conversion of this tariff, of
5 acceptance of this tariff, the existing customers will
6 not be charged a nonrecurring charge.

7 Q. I meant if they terminated it, picked up
8 this voice grade basic but then decided it wasn't good
9 enough, would they just pick up the new recurring
10 charge only?

11 A. That's correct.

12 Q. Let's stay with page 4 of Exhibit 5. The
13 last page of Exhibit 5.

14 A. Which is original sheet 17 of the WNU-28
15 tariff proposed.

16 Q. Yes. It was my general understanding that
17 USOC codes were only -- had one rate associated with
18 it?

19 A. One rate for a class of service. For
20 instance, voice grade 32 is a class of service. Voice
21 grade 33 is a different class of service. Voice grade
22 36 is a different class of service and voice grade
23 basic would also be another class of service.

24 Q. So it's possible -- if we look through
25 Exhibit 5 we can see the exact same USOC code but a

1 different monthly rate?

2 A. Yes, because of the class of service
3 involved, correct.

4 Q. Now, does the class of service -- and the
5 class of service is a text distinction, is it not?

6 A. Yes.

7 Q. Is this common to have -- is it common to
8 have different USOC codes for different technically
9 provisioned items?

10 A. The same USOC for differently provisioned?
11 It is in the private line transport service tariff and
12 it's by class of service again, and I'm sure that if
13 you want to look at an example, the PCWEX is a no-
14 signaling service under voice grade 32. Voice grade
15 32 has significantly different technical requirements
16 than voice grade 33 that also has a PCWEX, and so
17 signaling is one indication here that it's a different
18 service.

19 Q. Can you turn to third page of Exhibit C-8.

20 JUDGE CANFIELD: It appears that we may not
21 conclude Mr. Rees' testimony prior to taking break
22 so we're going to have to look at taking a break
23 sometime.

24 MR. TROTTER: I think I may be close to
25 finishing here.

1 Q. You were asked some questions from the
2 Department of Information Services regarding how you
3 got from the -- how you got to the right-hand column
4 of numbers through application of mileage rates. Do
5 you recall that?

6 A. Yes.

7 Q. And there is a record requisition
8 outstanding on that. I believe it's asking for work
9 papers.

10 I would like to ask you to provide the
11 number of miles and revenues for each mileage band,
12 which would be mileage outside the base rate area; is
13 that correct?

14 A. These are mileages between central office
15 of the interoffice mileage.

16 Q. Well, then, let me make the -- well, will
17 your response to record requisition 5 show the various
18 mileage bands that you are applying the rates -- will
19 it provide the number of circuits by mileage band?

20 A. I'm going to have to look to see what kind
21 of information is available. I don't know that right
22 offhand.

23 Q. As response to record requisition 8, if you
24 could provide a derivation of the numbers on the right
25 hand column of Exhibit C-8 showing the circuits by

1 mileage band and the rate applicable to generate those
2 numbers and this -- that's the end of the record
3 requisition. Does this sheet only apply to interoffice
4 mileage?

5 A. That's all we're proposing with this change
6 is for the interoffice mileage. It's called transport
7 mileage, correct.

8 (Record requisition 8.)

9 JUDGE CANFIELD: Rather than part of record
10 requisition No. 5 that was a separate record
11 requisition No. 8.

12 Q. And finally you were asked a question about
13 an OPX Centrex station line. I believe that's
14 off-premises Centrex station line?

15 A. Yes.

16 Q. And you indicated that you are not charging
17 for channel performance for those types of lines, do
18 you recall that, or are you?

19 A. No. Today an off-premises extension, PBX
20 off-premises extension is a terminal loop charge. It
21 would be two charges for the loop that goes between the
22 PBX and the central office and another terminal loop
23 from the central office out to the station, so there
24 would be two terminal loop charges and today there is
25 no separate charge for channel performance. The cost

1 is there, but there's no charge.

2 Q. I think either I misspoke or you misheard.
3 I was referring to an off-premises Centrex station
4 line, not a PBX.

5 A. All right.

6 Q. Do you recall that question earlier?

7 A. I do believe I heard that, yes.

8 Q. I thought you said that you are not
9 currently charging for channel performance for the
10 Centrex station line?

11 A. I don't believe there is a separate channel
12 performance charge. It is included in the Centrex
13 station line with the exception of those that require
14 interoffice mileage, and in this proposal we do have an
15 additional charge and there is a USOC for the
16 condition it might be required or would be required
17 for a circuit that goes between central offices and
18 then out to the Centrex station.

19 Q. As a response to record requisition 9, if
20 you could provide documentary support for your
21 statement that channel performance for an off-premises
22 Centrex station line is included in the station line
23 charge.

24 A. The cost?

25 Q. Yes.

1 A. I believe Ms. Santos-Rach can tell you
2 specifically that. That is a cost issue.

3 JUDGE CANFIELD: So you will defer on
4 requesting that as a record requisition.

5 MR. TROTTER: Yeah, that's fine.

6 Q. And I take it that philosophically it
7 should be either included in the cost or charged
8 separately?

9 A. One way or the other I believe there should
10 be a cost recovery, yes.

11 Q. And are the channel performance functions
12 the same for a Centrex station line as they are for
13 types of lines that are subjects of this proceeding?

14 A. There certainly is a design required, and
15 each of those designs has to be looked at
16 individually, so, yes, there would be channel
17 performance type of activities that take place for that
18 off-prem Centrex station.

19 Q. And so the costs would be the same?

20 A. The costs vary depending on what type of
21 channel performance is required.

22 Q. And should the markup then be the same?

23 A. Not necessarily. The price would be more
24 market-priced as opposed to any markup over cost.

25 Q. Is it discriminatory in your view for U S

1 West to charge a different channel performance cost for
2 services that -- for Centrex-type services than what it
3 charges for a line that is going to be used for a PBX?

4 A. Well, in one case we're talking about a
5 switched service out of the central office and the
6 private line service that I have been dealing with here
7 is a nonswitched service. It's a dedicated
8 point-to-point circuit without any switching.

9 Q. Just focusing on the channel performance
10 aspect.

11 A. Yes, that's correct. And because of where
12 the switch is located, there would be different
13 channel performance required. A nonswitched circuit
14 would be different than a switched circuit as far as
15 transmission requirements.

16 Q. Would there be any other differences?

17 A. The way it's connected in the central
18 office and things of that nature would be.

19 Q. I'm talking about just in terms of channel
20 performance. One is switched and one isn't and that
21 generates channel performance --

22 A. Differences.

23 Q. -- differences?

24 A. Yes, that's certainly part of it, and I
25 can't tell you whether there would be other changes or

1 differences or not. I haven't specifically looked at
2 those.

3 MR. TROTTER: Nothing further. Thank you.

4 THE WITNESS: Thank you, Mr. Trotter.

5 JUDGE CANFIELD: It's time for our break
6 or a little beyond time but let me first ask, Mr. Shaw,
7 will there be a redirect of Mr. Rees?

8 MR. SHAW: I believe there will, but over
9 the crossover, the two days, I would like a chance to
10 review my notes if I could.

11 JUDGE CANFIELD: So it would be appropriate
12 to take our break now then. We're coming onto the
13 noon hour. We can take 10-minute break and make some
14 use of the time that's left to see if that could be
15 accommodated before noon so we'll take a 10-minute
16 break until 11:46 or 7 thereabouts.

17 (Short recess.)

18 JUDGE CANFIELD: We're back on the record
19 briefly and I've just been advised that Mr. Shaw will
20 not have any redirect for Mr. Rees; is that correct?

21 MR. SHAW: That's correct.

22 JUDGE CANFIELD: With that Mr. Rees is
23 excused and we'll go ahead and take our lunch break
24 now and come back on the record at 1:15.

25 (Luncheon recess taken at 11:45 a.m.)

1 AFTERNOON SESSION

2 1:15 P.M.

3 JUDGE CANFIELD: We're back on the record
4 after our lunch break, and we were just between
5 witnesses, and I will also note that there has been
6 circulated a proposed revised schedule which I don't
7 know if everyone has seen it yet, but if not you might
8 check with some of the parties for a copy of it.
9 Rather than deal with that now, we'll just alert that
10 there's a discussion about a proposed schedule revision
11 that's being circulated, and we'll come back to that
12 before concluding this company cross session. Any
13 other preliminary matters before we proceed?

14 None. Mr. Shaw.

15 MR. SHAW: Yes. We call Ms. Nownes as our
16 next witness.

17 Whereupon,

18 PEGGY A. NOWNES,
19 having been first duly sworn, was called as a witness
20 herein and was examined and testified as follows:

21

22 DIRECT EXAMINATION

23 BY MR. SHAW:

24 Q. Would you please state your name, address,
25 and occupation for the record, please.

1 A. Peggy A. Nownes. My occupation is director
2 product and market issues for U S WEST. My address is
3 1314 Douglas on the Mall, Omaha, Nebraska, 68102.

4 Q. Now, have you created or caused to be
5 created under your supervision your prefiled exhibits
6 T-10, which is your direct testimony and Exhibit 11
7 and Exhibit 12?

8 A. Yes.

9 Q. Do you have any additions or corrections
10 that you need to make to those three exhibits at this
11 point?

12 A. Yes, I do. I need to make a couple of
13 minor corrections to my testimony, Exhibit T-10.
14 Starting on page 4, line 24, the percentage there
15 should be 56 percent instead of 58. On line 26, the
16 percentage should be 24 percent instead of 26.
17 On line 28 the percentage should be 20 instead of 16.

18 Continuing on to the next page, page 5,
19 line 2, the percentage should be 20 instead of 16.
20 Also on page 5, line 28, the second date there towards
21 the end of the sentence should be -- instead of 1980 it
22 should be 1976.

23 And one last correction on page 7, line 7,
24 the dollar amount there should be \$7,550,188. That's
25 all.

1 Q. With those additions and corrections, is
2 this testimony and exhibits true and correct to the
3 best of your belief?

4 A. Yes.

5 MR. SHAW: Your Honor, I would move the
6 admissions of Exhibit T-10 and Exhibit 11, 12 and
7 tender the witness for cross-examination.

8 JUDGE CANFIELD: Any objections to the
9 offered exhibits?

10 Let the record reflect there are none.
11 Exhibits T-10, 11 and 12 are so entered into the
12 record.

13 (Admitted Exhibits T-10, 11, 12.)

14 JUDGE CANFIELD: Mr. Trautman, do you have
15 questions for Ms. Nownes?

16

17 CROSS-EXAMINATION

18 BY MR. TRAUTMAN:

19 Q. Good afternoon.

20 A. Good afternoon.

21 Q. Could you turn to the first page of your
22 testimony. And in the answer that starts on line 10
23 asking about your principal responsibilities, the
24 second sentence it says that you are "routinely
25 involved in the strategic and operational decisions

1 concerning these services." Can you explain what
2 strategic and operational decisions you participated in
3 regarding the directory assistance filing?

4 A. Yes. I have worked very closely with the
5 product manager and on the strategic teams that are
6 involved with directory assistance, and have been
7 involved in preparing the information for this filing
8 for this case.

9 Q. What specific steps did you take?

10 A. As far as preparing --

11 Q. What specific decisions that you would call
12 strategic decisions did you make?

13 A. In determining what the rates should be as
14 far as the filing and the call allowance that we're
15 proposing.

16 Q. So are those the only strategic decisions
17 that you made?

18 A. For this filing, yes.

19 Q. And regarding operational decisions, what
20 decisions did you make that you would consider
21 operational regarding this filing?

22 A. I consider part of the operation for this
23 filing is preparing the testimony, answering the
24 interrogatories and some of the exhibits, and that
25 being part of the operational part of this filing.

1 Q. And that would be the extent of the
2 operational decisions you made?

3 A. At this time, yes.

4 Q. Do you know whether the company filed and
5 withdrew a proposed directory assistance rate increase
6 in Washington just prior to making the present filing?

7 A. That is my understanding, yes.

8 Q. That they did?

9 A. That they did that.

10 Q. And it was withdrawn?

11 A. Yes.

12 Q. Do you know when that was done?

13 A. I don't have the specific dates or time
14 frame.

15 Q. Do you know why the previous filings were
16 made and then withdrawn?

17 A. It is my understanding that we filed
18 initially to change the call allowance and the staff
19 recommended that we prepare a new cost study and so we
20 withdrew the filing to do that, and then we came back
21 and filed to increase the rate and also change the
22 call allowance.

23 Q. As I understand your testimony, the reason
24 you're proposing to increase directory assistance
25 rates here is because they're below cost and it's

1 important to bring rates to cost for this service
2 because directory assistance is becoming increasingly
3 more competitive. Would that be correct?

4 A. Yes.

5 Q. On page 6 of your testimony, you mention a
6 company called Bottom Line Telecommunications Inc.;
7 is that correct?

8 A. Yes.

9 Q. And would that company be an example of the
10 more competitive nature of directory assistance service
11 that you discuss in your testimony?

12 A. Yes. I believe it's an example of another
13 company that offers directory assistance other than U S
14 WEST.

15 Q. Can you explain what a directory assistance
16 service bureau is?

17 A. My definition of -- probably a directory
18 assistance service bureau would be one that would
19 offer some directory assistance services, and not
20 necessarily in the same way that we do but they may be
21 enhanced type directory information, whether it be a
22 reverse directory or possibly just a directory
23 information for a specific category of businesses or
24 something like that. That's what I --

25 Q. Do you know that to be what a directory

1 assistance service bureau is or are you guessing?

2 A. That's my idea of what it would be.

3 Q. Is U S WEST involved with or part of any
4 directory assistance bureau?

5 A. Not directly. We do have a separate
6 subsidiary that offers directories and some enhanced
7 services through a separate subsidiary, but that's the
8 only way that we would be connected.

9 Q. Do they offer directory assistance?

10 A. The separate subsidiary?

11 Q. Yes.

12 A. Not in the way that we provide it to our
13 customers, no, not to my knowledge.

14 Q. How is it different?

15 A. The separate subsidiary offers the actual
16 published directories, the Yellow Pages, the White
17 Pages and the Yellow Pages, and they offer some
18 enhanced services that, for example, they can sort the
19 information to a specific request from customers.

20 Q. Are you the witness responsible for
21 supporting the estimated revenue effect of the
22 directory assistance filing?

23 A. Yes.

24 Q. Can you explain how you arrived at the
25 revenue impact figure at page 7 of your testimony

1 which used to be 7,600,000, now revised to
2 7,550,188?

3 A. An elasticity study was performed in 1990
4 and we used some call volumes and some regression
5 factors to determine what the impact would be for this
6 filing of an increase of ten cents, and that's how we
7 arrived at these numbers. I believe some of that
8 information would be confidential.

9 Q. Can you explain what regression is.

10 A. Regression is the market impact of demand
11 when you have a different rate that is going to be
12 imposed or approved that will affect the customer
13 base.

14 Q. Does it include any effects other than a
15 change in price?

16 A. Well, it affects the volumes that you're
17 going to see a different volume base because of the
18 regression that customers may or may not call as often
19 as they did.

20 Q. Was the regression factor that was used in
21 the calculation taken from Minnesota study?

22 A. Yes, it was -- I'm sorry. Let me just
23 check for a second. I believe the actual regression
24 number was but we used Washington data.

25 Q. You used Washington data but the regression

1 factor was from Minnesota to clarify?

2 A. That's what I believe, yes.

3 Q. Why is it appropriate to use the Minnesota
4 repression factor for estimating repression in
5 Washington?

6 A. From my information we didn't have the
7 tracking available to do something differently for
8 Washington. That's why we used Minnesota, which we
9 feel is somewhat comparable as far as volumes and
10 demographics to Washington.

11 Q. How exactly is it comparable? Just in
12 those two factors?

13 A. Yes.

14 Q. Is there the same amount of free calling
15 allowed in Minnesota?

16 A. No. They have lesser calls.

17 Q. Do you know how many?

18 A. The latest information I have is they have
19 two free call allowance.

20 Q. And in Washington we have?

21 A. Four.

22 Q. Could you turn to page 3 of your testimony
23 and it would be at the bottom, and you indicate that
24 residential customers will be, in your words,
25 "minimally affected by the rate structure change"; is

1 that correct?

2 A. Yes.

3 Q. Then you have percentages of how many
4 customers make a certain number of calls. You
5 indicate that 67 percent of the customers made zero to
6 one call?

7 A. Yes.

8 Q. Then turning to page 4, 15 percent of the
9 customers make over four -- that being five or more --
10 calls, correct?

11 A. Yes.

12 Q. And so then the remaining 18 percent of the
13 customers would make between two and four calls --
14 two, three or four calls a month, correct?

15 A. Yes.

16 Q. Then you have following those statistics,
17 you answer in response to the question what percent
18 of residence customers will now be billed for
19 directory assistance calls that were previously part
20 of their free call allowance? And you state,
21 "Approximately 18 percent of the residential customers
22 will be billed." How did you derive that figure?

23 A. The 18 percent?

24 Q. Yes.

25 A. We did a study in, again, Minnesota using

1 some call volumes and information and that's what we
2 determined. I think that was provided as part of one
3 of the interrogatories.

4 Q. Does the 18 percent, is that related to
5 the 18 percent of the customers that make two, three
6 or four calls?

7 A. That 18 percent is approximately those
8 customers that make two, three or four calls.

9 Q. Well, then, isn't that an inaccurate
10 percent because won't 33 percent of the customers now
11 be billed for calls that they previously weren't
12 billed for?

13 A. No, because 15 percent of above that made
14 over four calls are currently being billed the 25
15 cents, but if we go to the new rate structure, which
16 increases the 25 cents to 35 cents and lower the free
17 call volume to one for residence, there was those two-,
18 three- and four-call customers are now going to be
19 billed where they weren't, where the 15 cents have
20 already been.

21 Q. Well, while that's true with the 18 percent
22 that you're referring to, but the 15 percent that make
23 five or more calls they're now going to be billed for
24 calls two, three and four, aren't they?

25 A. Yes.

1 Q. Aren't they also going to be billed for
2 calls that previously they were not billed for?

3 A. In that respect, yes, 33 will be totally
4 billed for calls now.

5 Q. So wouldn't it be accurate then to say that
6 approximately 33 percent of residential customers will
7 be billed for directory assistance calls that were
8 previously part of the monthly four free call
9 allowance?

10 A. Yes. If this filing is approved the way we
11 have, it will be 33 percent of the customers will be
12 billed.

13 Q. And then turning at the bottom of page 4
14 carrying over to page 5 of your testimony, you have
15 similar figures for the business customers which you
16 have revised now at 56 percent of the business
17 customers making no calls per month, correct?

18 A. Right.

19 Q. 24 percent making over four calls per
20 month, correct?

21 A. Yes.

22 Q. And 20 percent making one to four calls;
23 is that correct?

24 A. Right.

25 Q. And so turning to the next -- to the top of

1 page 5, wouldn't it be correct, then, to say that in
2 summary approximately 44 percent of business customers
3 will now be billed for directory assistance calls that
4 were previously part of their free call allowance?

5 A. When you add the two, all those customers
6 will be billed for calls, that is correct. What we
7 are just trying to say in my testimony or what I was
8 trying to say is that those 24 were being billed
9 before and now we're going to charge the additional
10 20, so it does add up to 44, yes.

11 Q. Could you turn now to your Exhibit 11 which
12 is referred to as PAN-2. And would it be correct to
13 say that this shows the directory assistance rates for
14 other U S WEST states?

15 A. Yes, it does.

16 Q. And on page 5 of your testimony, you
17 indicate that Washington's rates are among the lowest
18 in U S WEST states; is that correct?

19 A. Yes.

20 Q. Could I refer you now to the company's
21 response to -- it would be WUT 01-019 data request.

22 A. Okay.

23 Q. And the request in that that was made by
24 staff stated, "referring to Exhibit 11, PAN-2, please
25 provide the tariffed rate sheets for directory

1 assistance service for each U S WEST state. Include
2 both business and resident rate schedules." And the
3 company's response says, "Attachment A provides the
4 directory assistance tariff rate sheets for the states
5 of U S WEST." Do you see that?

6 A. Yes.

7 Q. And if you look to the first -- it would be
8 the first two pages following the cover sheet you have
9 tariff sheets for Arizona; is that correct?

10 A. Yes.

11 Q. And in that information are there -- is
12 there any information that sets forth the Arizona
13 directory assistance rates?

14 A. Looks like we must have omitted the sheet
15 that has the rates on it.

16 MR. TRAUTMAN: We would like to request
17 that as record requisition No. 9. 9 or 10.

18 JUDGE CANFIELD: The next number would be
19 9. I guess 9 was deferred by Mr. Trotter so assign
20 No. 9 to that request.

21 (Record requisition 9.)

22 Q. Could you turn now to the directory
23 assistance rates for Montana, and it would be on page
24 16.1 in the upper right-hand corner. Do you have that
25 page?

1 A. Yes.

2 Q. Now, is it correct that in Montana there is
3 a maximum of two requested telephone numbers per
4 customer call?

5 A. Yes.

6 Q. And that each call is 40 cents?

7 A. Yes.

8 Q. So that if two requests were made then each
9 request would be 20 cents?

10 A. I would have to verify it but I think
11 you're correct.

12 Q. I think it would just be 40 cents divided
13 by two.

14 A. 40 cents are for the one call with two
15 requests.

16 Q. Now, in Washington, is it your
17 understanding that a customer can get one request per
18 call?

19 A. I would, again, have to probably say that's
20 correct, you know, subject to check.

21 Q. And for that one request they would pay how
22 much if it were over the free call allowance?

23 A. 25 cents.

24 Q. Would you agree subject to check -- and
25 these can be verified, I believe, in the tariff filing

1 sheets you've provided -- that in North Dakota you're
2 entitled to five free calls and then two requests per
3 call at 26 cents a call?

4 A. Yes.

5 Q. And would you agree subject to check that
6 in New Mexico a customer is entitled two requests at
7 60 cents per call?

8 A. Yes.

9 Q. And that if the customer made two requests
10 that would equal 30 cents per request?

11 A. It's two calls for each -- two requests per
12 call at 60 cents.

13 Q. And would you agree subject to check that
14 in Minnesota a customer is entitled to two requests
15 per call at 35 cents per call?

16 A. That says two requests per call each 35
17 cents.

18 Q. It's 35 cents per call, correct?

19 A. It says dialed calls over the allowance
20 maximum of two requests per call each 35 cents.

21 Q. And so if a customer made two requests that
22 would equal 17 and a half cents per request; is that
23 correct?

24 A. Yes.

25 Q. Is it the position of the company that the

1 Commission should set rates for services based upon a
2 comparison with rates in other states?

3 A. I think in this filing we need to take into
4 consideration that the current rate and the proposed
5 rates are below cost, that being the major factor.

6 Q. You indicated that's the major factor.
7 Should the Commission base its decision in any way
8 upon a comparison with rates in other states?

9 A. I think that could be a factor. I don't
10 think, again, it's a significant one. I think the
11 most significant is that our rates are below cost.

12 Q. Could you refer now to -- it's public
13 counsel's data request 01-002.

14 A. Okay.

15 Q. And question D, would you agree that this
16 question which states, "Provide a narrative and any
17 documents relating to US West's position of
18 appropriate action if its elasticity estimate is
19 substantially incorrect, would you agree that that
20 question asks about a true-up?

21 A. Yes.

22 Q. If the Commission were to approve your
23 request or the company's request to increase the
24 directory assistance rate to 35 cents, are you willing
25 to do a true-up?

1 A. Yes. That's what we indicated that nothing
2 is exact and if you require, we certainly after a
3 certain period of time could do a true-up, if that's
4 necessary.

5 Q. Now, can you explain how the revenue
6 estimates would be trued up given that the quantity of
7 the directory assistance calls was estimated with a
8 five-year levelized demand calculation?

9 A. Depending on what the Commission requires,
10 we would have to take a look at that time period in
11 which the rates have been into effect and the volumes
12 and compared to what we estimated.

13 Q. So whatever the Commission requires you to
14 do is what the company will do?

15 A. Well, I would hope that we could work
16 cooperatively to figure out what would be the best way
17 to do this.

18 Q. So you don't have a specific proposal --

19 A. No, I don't.

20 Q. -- on that, how that would be done?

21 MR. TRAUTMAN: No further questions.

22 JUDGE CANFIELD: Mr. Nettleton, do you have
23 questions?

24 MR. NETTLETON: AWC's questions will be
25 asked by Mr. Kahn.

1 JUDGE CANFIELD: Ms. Frickelton.

2 MS. FRICKELTON: I have no questions.

3 JUDGE CANFIELD: Mr. Kahn.

4 MR. KAHN: I do, Your Honor, if I can get
5 the microphone.

6

7 CROSS-EXAMINATION

8 BY MR. KAHN:

9 Q. Ms. Nownes, good afternoon.

10 A. Good afternoon.

11 Q. Could I ask you to turn to your testimony
12 at page 5, specifically lines 13 through 18. In your
13 testimony you state that the initial proposal for
14 directory assistance was designed to minimize rate
15 shock to customers. Is that accurate?

16 A. Yes.

17 Q. Describe for me what your definition is of
18 rate shock.

19 A. I think a rate that gets the customer's
20 attention to the point that they may decide not to use
21 the service because of the significant -- or the price
22 that's suggested.

23 Q. In setting prices for services, does U S
24 WEST as a policy consider rate shock as something it
25 looks at?

1 A. Yes, I believe so.

2 Q. In US West's opinion, is it desirable to
3 avoid rate shock?

4 A. It depends on each product and the product
5 manager's decision. I can't say it's an overall U S
6 WEST blanket policy, but it depends on the service and
7 the product managers and the strategies that are
8 developed for that product.

9 Q. Can you tell me any products in which it
10 would be desirable to have rate shock in setting
11 prices?

12 A. I can't think of anything offhand that we
13 would want to really shock the customers.

14 Q. What would your definition be of something
15 that would involve rate shock in terms of a percentage
16 increase from existing price to a new price, say in a
17 very short period of time?

18 A. I believe that's difficult to answer only
19 because of the different prices that you're talking
20 about. When we're talking a dime increase where some
21 other services may be many tens of dollars or
22 whatever, I can't really say that there's a specific
23 percentage that the company would say is right or
24 wrong.

25 Q. The proposed change for directory

1 assistance is from 25 cents to 35 cents; is that
2 correct?

3 A. Yes.

4 Q. What percentage increase is that
5 approximately?

6 A. 40.

7 Q. -- in looking at that increase, it's a
8 10-cent increase; is that correct?

9 A. Yes.

10 Q. Company did consider rate shock in setting
11 that increase in limiting it to 10 cents; is that
12 correct?

13 A. In this case for this product, yes.

14 Q. In your opinion, would an increase in
15 rates, again in a very short period of time from
16 \$75,411 to \$232,090 be considered something that would
17 get the customer's attention pretty quickly?

18 A. In my personal opinion that seems
19 significant, but I can't address the specifics of what
20 the product is and the overall picture.

21 Q. In your opinion, again without knowing the
22 exact parameters of the product, but based on that
23 increase, would you consider that to be rate shock?

24 A. All I can say is it sounds significant.

25 MR. KAHN: Ms. Nownes, thank you very much.

1 I have nothing further.

2 JUDGE CANFIELD: Ms. Marcus, did you have
3 questions?

4 MS. MARCUS: No, I didn't.

5 JUDGE CANFIELD: Mr. Butler.

6 MR. BUTLER: No questions.

7 JUDGE CANFIELD: Mr. Kopta.

8

9 CROSS-EXAMINATION

10 BY MR. KOPTA:

11 Q. Good afternoon, Ms. Nownes, my name is Greg
12 Kopta, and I am representing Digital Direct of Seattle
13 and TCG Seattle. I just have a couple of questions.
14 Ms. Owen and Mr. Rees previously testified that the
15 purpose of the rate increase for the service in which
16 the rates are increased in this filing is to recover
17 costs and that the decreases are in part intended to
18 be responsive to competitive market conditions. Would
19 you agree with that statement?

20 A. Yes.

21 Q. On page 6 of your testimony, lines 14
22 through 16 you state and I quote, "U S WEST believes it
23 is important to move closer to costs because directory
24 assistance is becoming increasingly more competitive."
25 Would you explain what you mean by that?

1 A. Well, basically two things. Technology is
2 certainly changing the way services are provided, and
3 I think even in the instance of directory assistance
4 we're seeing more companies enter into what I will
5 call directory services whether it be like attached to
6 my testimony the article about Metromail that offers
7 an on-line service or our reference to Volt Delta in
8 that they offer an automated service, and so I think
9 the possibility there to just about anyone to provide
10 directory services in some fashion and it's evolving
11 and if we have to continue to price our directory
12 assistance below cost, there's not going to be any
13 competition.

14 Q. So part of the reason that you're
15 increasing the rates for directory assistance is to
16 allow more competition in directory assistance
17 services?

18 A. It's my understanding in Washington that
19 it's free entry. As long as the company is financially
20 and economically able to provide services that anyone
21 can enter into providing these services.

22 Q. While that may be true, is it US West's
23 intention, though, as part of this filing to increase
24 rates to allow more competition for directory
25 assistance providers?

1 A. I think it's already -- it's starting and I
2 think if we have to again continue to charge rates
3 below cost that it's not going to increase competition
4 with others if they see that our rates are so low.

5 MR. KOPTA: Thanks very much. That's all I
6 have.

7 JUDGE CANFIELD: Mr. Harlow?

8 MR. HARLOW: No questions, Your Honor.

9 JUDGE CANFIELD: Through the line-up to
10 Mr. Trotter.

11 MR. TROTTER: Thank you.

12

13 CROSS-EXAMINATION

14 BY MR. TROTTER:

15 Q. Ms. Nownes, did U S WEST give any
16 consideration to putting a tariff provision in to
17 permit two number requests per call for DA?

18 A. For res or business?

19 Q. Either.

20 A. Not to my knowledge. I understand our
21 filing was to make it one free call allowance for
22 residence and zero for business.

23 Q. And for each call -- maybe you didn't grasp
24 the question. For each call you can only make one
25 request for a number; is that correct?

1 A. That's my understanding.

2 Q. If you already answered this say so, but did
3 U S WEST give any consideration to changing it to two
4 requests per call?

5 A. I don't know. I would have to check.

6 Q. That wasn't one of the topics that came up
7 in the strategic decisions?

8 A. No.

9 Q. Now, you do compare, as you just discussed
10 with staff counsel, you do in your testimony compare
11 directory assistance service in other U S WEST states.
12 Why did you not compare the request per call allowance,
13 if that's the right use of that term, in each state to
14 Washington?

15 A. Are you again referring to the two requests
16 per call?

17 Q. Yeah.

18 A. I really don't know. I probably should say
19 that I've been involved with this product in a limited
20 time so I really don't know why that was not
21 considered. I know we do -- we are looking to try to
22 get regional rates and that's something that I don't
23 have a specific answer to.

24 Q. But in your Exhibit 11 there's nothing on
25 that exhibit that talks about requests per call?

1 A. No, it doesn't.

2 Q. Now, Ms. Owen, staying with Exhibit 11, I
3 believe Ms. Owen said that she thought that several
4 states already had the 60 cent rate, and we'll just
5 let the record speak for itself on what she said, but
6 does this exhibit show two of the U S WEST states?

7 A. Yes, and we have filed in some other states
8 to increase the rate also.

9 Q. But as of now, these are the two?

10 A. These are the two that are approved and in
11 effect.

12 Q. Now, you define DA calls as when a customer
13 calls to obtain a telephone number in their area code;
14 is that right?

15 A. Yes.

16 Q. If a customer dials for a number in another
17 U S WEST area code, in the state of Washington let's
18 say, do the rates that cover that DA call, are they
19 subject to this proceeding?

20 A. No. Those rates or those calls would go
21 through an interexchange carrier customer like an MCI
22 or one of those that those rates are -- for that
23 product are different and the rates are different.

24 Q. So if I call -- I reside in the 206 area
25 code, and I want to call for an acquaintance in

1 Spokane so I dial 509-555-1212 --

2 A. Yes.

3 Q. -- and I ask for the name. Who bills that
4 call?

5 A. We have a charge to the interexchange
6 carrier, but the interexchange carrier company would
7 bill you, the end user, for that directory assistance
8 call.

9 Q. But you provide the service to the
10 interexchange carrier; is that right? It's a U S WEST
11 operator I'm going to get when I seek that information?

12 A. Not necessarily. I think some of the
13 interexchange carriers provide their own.

14 Q. Let's assume I'm using AT&T, MCI or Sprint.
15 Do I get a U S WEST operator each time?

16 A. I would have to check. I'm not sure.

17 Q. Let's assume I get a U S WEST operator. You
18 will give me the information, charge the interexchange
19 carrier for that service, and then they charge me
20 whatever their tariff or price list says. Is that how
21 it works?

22 A. I think so.

23 Q. And then they will give you whatever your
24 contract or whatever your rate is?

25 A. Right.

1 Q. Now, so that's wholesale directory
2 assistance?

3 A. That's usually how we refer to it.

4 Q. And where are those rates located?

5 A. I believe those are in the access tariff.

6 Q. And are those rates currently below cost in
7 Washington?

8 A. I believe they're above cost.

9 Q. Now, U S WEST provides directory assistance
10 for other local exchange carriers; is that right?

11 A. Yes.

12 Q. And could you just name one that you do
13 that for in Washington?

14 A. Another local exchange company?

15 Q. Yes.

16 A. I will say GTE.

17 Q. I understand they're going away from using
18 yours, but let's just use them anyway. So if I'm a
19 GTE customer and I dial -- and I live in Everett,
20 which is in the 206 area code, and I dial 206-555-1212
21 I get a U S WEST operator?.

22 A. Sometimes. It depends on the local exchange
23 carrier. Sometimes we provide the service, sometimes
24 they provide their own.

25 Q. So even GTE, I could get a GTE operator or a

1 U S WEST operator?

2 A. Yes.

3 Q. Let's assume I get a U S WEST operator.

4 Again, is that a wholesale?

5 A. Yes.

6 Q. And GTE will bill me and then you will bill

7 GTE?

8 A. Right.

9 Q. And where are those rates found?

10 A. On the wholesale market. Just a second. I

11 want to say they're above costs but I want to just

12 verify it real quick. Right now those rates are

13 below cost.

14 Q. Does U S WEST have any plan or what are US

15 West's plans for getting those rates above cost?

16 A. I don't know the immediate plans to do

17 that.

18 Q. Is it fair in your estimation for U S WEST

19 customers to pay rates that are proposed to be getting

20 toward or above cost whether or not at the wholesale

21 level while for LECs there is no plan, at least that

22 you're aware of?

23 A. There is a plan to do something. I don't

24 have the exact time frames or specifics around that.

25 Q. As a response to record requisition 10 if

1 you could just give us the plan for -- if any -- for
2 raising LEC wholesale DA services above cost.

3 JUDGE CANFIELD: Okay. That is record
4 requisition No. 10.

5 (Record requisition 10.)

6 Q. Am I correct that -- well, Ms. Owen agreed
7 that the long-range goal is to have residents 60 cent
8 DA charge and one free call?

9 A. For residence, yes.

10 Q. And that rate would be below cost, would it
11 not?

12 A. The 60 cents, no, that would be above cost.

13 Q. Well, the fact that you're giving one call
14 allowance mean that you're referring two calls for
15 that 60 cents?

16 A. My understanding, that 60 cents with one
17 free would cover costs.

18 Q. Well, that's in essence two calls for 60
19 cents?

20 A. Yes.

21 Q. And that covers costs, in your opinion?

22 A. Well, I think I need to double-check
23 because I know what you're saying but I may have to
24 verify that.

25 Q. Is that one for Ms. Santos-Rach or is that

1 one for you?

2 A. Well, we could address it. We could defer
3 it to Ms. Santos-Rach and I could also verify it.

4 Q. Let's defer that and then if I need to make
5 a request of her, I will do that. Is that acceptable
6 to you?

7 A. Yes.

8 Q. And turning back to Exhibit 11 with New
9 Mexico at 60 cents per call, but I believe you've
10 accepted that you can make two requests?

11 A. Yes.

12 Q. Is there a cost per request? Let me try it
13 another way. Assume the Washington rate is 60 cents
14 per call. Do you know what the cost is for making an
15 extra request on the same call?

16 A. No, I don't.

17 Q. Is that a question Ms. Santos-Rach can
18 answer?

19 A. I think I will defer to her.

20 Q. Now, on page 5 of your testimony when
21 you're asking about -- asked about what happens to
22 increase rates to recover total LRIC costs, you
23 indicate that your plan is to move rates that recover
24 the Commission-approved LRIC and 15 percent
25 contribution to common overheads. Do you see that?

1 A. Yes.

2 Q. And you were asked what the source of that
3 15 percent or source of that phrase and you referred
4 us to the Commission's order on billing and collecting
5 services; is that right?

6 A. I believe so.

7 Q. And that was a competitive classification
8 proceeding, was it not?

9 A. I believe so. I would have to check that.

10 Q. Would you accept that subject to check?

11 A. Yes.

12 Q. And you previously talked about the Bottom
13 Line Telecommunications Company and you provide a
14 price or a tariff sheet in your Exhibit 12; is that
15 right?

16 A. Yes.

17 Q. Have you attempted to actually use Bottom
18 Line service?

19 A. No.

20 Q. Do you know how they use it? In other
21 words, do they use U S WEST wholesale or do you know?

22 A. I don't know.

23 Q. Do you know whether they have to pay
24 mileage charges on any DA call that they make?

25 A. I'm not familiar with their operation or

1 how they have their network configured.

2 Q. Now, again, the record will speak for
3 itself, but I thought -- you were here to hear
4 Ms. Owen's testimony?

5 A. Most of it.

6 Q. My notes said that in response to a request
7 I asked that the issue for DA, and some other things,
8 but DA the issue was cost, not competition?

9 A. That's the primary factor, yes, is to make
10 sure that our rates get above costs.

11 Q. I'm not sure the word "primary" was used
12 there, but I take it that in your opinion competition
13 is an issue in this proceeding?

14 A. I think so, yes.

15 Q. Do you know what US West's market share for
16 DA is in Washington?

17 A. I could give a guess but I don't think I --

18 Q. Have you seen any data on US West's market
19 share?

20 A. Not specifically, no.

21 MR. TROTTER: Your Honor, I have a
22 multi-page exhibit that has been provided pursuant to
23 the protective order so it needs to receive a
24 confidentiality designation.

25 JUDGE CANFIELD: Okay.

1 MR. TROTTER: And the document itself does
2 reference confidential nature of the exhibit.

3 JUDGE CANFIELD: I will assign the next
4 number to that and that will be confidential Exhibit
5 No. C-21.

6 (Marked Exhibit C-21.)

7 Q. This is your response to PC 01-014
8 First of all, do you recognize Exhibit C-21 as your
9 response to our request 01-014?

10 A. Yes.

11 Q. And that requested that you provide all
12 documents addressing your company's plans for future
13 directory assistance filings, and the response was
14 a directory assistance analysis of the market and some
15 plans. Do you know when this document was prepared?

16 A. On the bottom of I think the first two pages
17 it looks like March 2nd, 1994 and as far as the the
18 other attachment, I don't know the exact date.

19 Q. And by other attachment you mean the last
20 page?

21 A. Well, I kind of separate it into three
22 documents here.

23 Q. I see. I'm sorry. The first --

24 A. Yeah. The first one is some strategies and
25 stuff and the second one is the marketing 1993

1 marketing plan and the last sheet is just kind of by
2 itself.

3 Q. Okay. Do you know the date the marketing
4 plan was prepared?

5 A. No, I don't. I don't have the exact date.

6 Q. Just from reading the text of it, it appears
7 to be in the 1992-93 time frame?

8 A. Yes.

9 Q. And the last page, do you know when that
10 was prepared?

11 A. March 1, 1994.

12 Q. Now, looking at the last page and not
13 reading into the record any specific number other than
14 what's already in the record, public record, but you
15 show for the state of Washington end user cost per
16 call a certain figure and that is not the figure
17 that's relied on by Ms. Santos-Rach, is it?

18 A. I believe it is. She may have another
19 number that includes some other things like some
20 shared residuals stuff that may make it a little
21 different.

22 Q. Oh, I see. So this was not intended to be
23 the total LRIC cost?

24 A. I'm going to have to defer to
25 Ms. Santos-Rach on that.

1 Q. If we go further down the page, we see the
2 different types of users of directory assistance and
3 we've already talked about exchange carrier and that
4 will be local exchange carrier at the bottom; is that
5 right?

6 A. Yes.

7 Q. And then IEC, that would be interexchange
8 carrier?

9 A. Yes.

10 Q. And then we see the cost and the current
11 pricing?

12 A. Yes.

13 Q. Now, I will pursue that further with the
14 next witness. With respect to the marketing plan, I
15 take it you've seen that before this hearing?

16 A. Yes.

17 Q. Is that the current U S WEST strategy for
18 this product?

19 A. To my knowledge, yes.

20 MR. TROTTER: Your Honor, move for the
21 admission of Exhibit C-21.

22 JUDGE CANFIELD: Any objections to the
23 admission of that confidential Exhibit No. C-21?

24 MR. SHAW: No objection.

25 JUDGE CANFIELD: Exhibit C-21 is so entered

1 into the record as a confidential sealed exhibit
2 subject to the terms of the protective order.

3 (Admitted Exhibit C-21.)

4 Q. On page 6 of your testimony you refer to
5 the New York-based company Volt Delta Resources having
6 developed an automated directory assistance system,
7 and that system makes it possible for callers to
8 request telephone numbers and receive automated
9 responses without talking to directory assistance
10 operators; is that right?

11 A. Yes.

12 Q. Is it correct that U S WEST directory
13 assistance is all live operators?

14 A. To my knowledge you do get an automated
15 response with the number afterwards, after talking to
16 a DA operator, yes.

17 Q. But this Volt Delta, you don't talk to
18 anybody?

19 A. According to this brief little article, no,
20 you don't.

21 Q. And am I correct that the operator costs
22 are the lion's share of the costs of directory
23 assistance?

24 A. I would say yes, but I again probably defer
25 that to Ms. Santos-Rach.

1 Q. Does U S WEST have any plans to implement
2 voiceless DA service?

3 A. We are currently trialing speech recognition
4 service, but I don't have the time frames as to
5 implementation or anything. We're just trialing it.

6 Q. Where are you trialing?

7 A. To my knowledge, Colorado.

8 Q. And the reason that you're trialing that
9 technology is because it will provide cost benefits to
10 the company?

11 A. Well, some of that, and I think just the
12 technology and the way that customers are interacting
13 with different services. I mean, we're doing a lot of
14 things.

15 Q. Has U S WEST done any analysis of what it
16 expects to -- what it could expect to charge in the
17 marketplace for that -- excuse me -- for what it would
18 cost to offer that service on a more or less ubiquitous
19 basis?

20 A. There may be some information available but
21 I don't have any.

22 Q. As a response to record requisition 11, if
23 you could provide any data regarding the cost of
24 providing voiceless DA on a broad basis?

25 JUDGE CANFIELD: That's record requisition

1 No. 11.

2 (Record requisition 11.)

3 Q. I take it the questions regarding the cost
4 study and what costs went into it and efficiency
5 measures that U S WEST is engaged in regarding DAs
6 should be addressed to the next witness?

7 A. Yes.

8 Q. You also mention on page 6 and 7 Metromail
9 national directory assistance on-line service. Have
10 you used that service?

11 A. I have not personally, no.

12 Q. Have you reviewed any reports from people
13 that have?

14 A. No, I haven't.

15 Q. But that's just a database that the person
16 can access on a dial-up basis. Is that the gist of
17 this?

18 A. That's my understanding, yes.

19 Q. Does U S WEST have any plans to implement
20 that type of technology?

21 A. I'm not aware of anything.

22 Q. On the next page -- on page 7 of your
23 testimony you indicate some reference to the article
24 that it states that -- regarding the Metromail -- that
25 the cost is anywhere from 7 cents to 30 cents. Am I

1 correct that may be more appropriate to say that the
2 price was anywhere from 7 cents to 30 cents or was
3 that the cost?

4 A. I would have to refer back to the article
5 to verify that.

6 Q. If you could just take a moment to do that.

7 A. Okay. The article says per call costs.

8 Q. You were asked some questions about your
9 elasticity measurement for this service, and you
10 mentioned it was based on a study in Minnesota. The
11 same elasticity factor was used for both the residence
12 and business directory assistance, wasn't it?

13 A. Yes. And again, my information was that we
14 could not break the information apart. We didn't have
15 the tracking in place to do that.

16 Q. Would you believe that -- is that an
17 expected result that elasticity would be the same for
18 business and residence for the same service?

19 A. I don't know.

20 MR. TROTTER: Your Honor, I have a two-page
21 exhibit which has also been designated confidential.

22 JUDGE CANFIELD: I will assign the next
23 number to that, that being confidential C-22.

24 (Marked Exhibit No. C-22.)

25 MR. TROTTER: If the witness could be

1 provided a copy.

2 Q. You indicated that you were responsible for
3 the development of the revenue impact for this service,
4 and am I correct that this exhibit shows the
5 derivation of that number?

6 A. Yes.

7 Q. And the number that is in the public
8 record, the lower right-hand box, 7 and half million,
9 that's the number that you're relying on?

10 A. Yes.

11 Q. And the caption shows the company's current
12 proposal?

13 A. Yes.

14 Q. And the separate reprice section, those
15 numbers are just your assumed volumes times the new
16 prices?

17 A. Yes.

18 Q. And then the next column where you refer to
19 market reaction, that would be the application of the
20 elasticity?

21 A. Right.

22 Q. And then the last column refers to net
23 impact with market reaction and cost savings and then
24 there's an asterisk on the cost savings number that
25 gives you the two figures that render the 7 and a half

1 million?

2 A. Yes.

3 Q. Now, could you just explain the cost
4 savings without getting into the numbers, but just the
5 concept of this cost savings analysis, why it was
6 done, and the mechanics of it, if that's something you
7 can refer to publicly?

8 A. I don't know if I can get into the
9 mechanics of it, but I can basically say that the cost
10 savings are with the repression that we're going to
11 have less calls and therefore operators are going to
12 handle less calls and that's where the cost savings
13 comes from.

14 Q. Now, the company -- maybe this is a
15 question for the next witness, but the company
16 categorized all operator costs as variable, did they
17 not?

18 A. I think you need to save that for the next
19 witness.

20 Q. I did not see any work papers associated
21 with that market or cost savings analysis. Were there
22 such work papers provided?

23 A. I think they're all right here as far as --

24 Q. On the next page?

25 A. Yes. I mean, that gets to that number.

1 Without getting into the numbers, the only thing that
2 you need to consider is that, I will say, column that
3 says change where D minus A, and you take that number
4 times the -- let's see -- the operator expense number
5 to get that cost savings. It's here. I was just
6 trying to explain how you get to that number but it's
7 all here.

8 Q. Based on your statement that it's all
9 there, I will take a look at it.

10 A. It would probably be easier if I could
11 explain some of the numbers.

12 Q. I think we will let that work paper stand
13 and perhaps deal with it in another context. Is
14 that cost savings analysis, is that something that the
15 company agrees is appropriate?

16 A. Yes.

17 MR. TROTTER: No further questions. Thank
18 you.

19 JUDGE CANFIELD: You're offering C-22.

20 MR. TROTTER: Yes.

21 JUDGE CANFIELD: Any objections to Exhibit
22 C-22?

23 MR. SHAW: No, Your Honor.

24 JUDGE CANFIELD: Exhibit C-22 is so entered
25 into the record as a confidential sealed exhibit.

1 (Admitted Exhibit C-22.)

2 JUDGE CANFIELD: I will ask Mr. Shaw if
3 there's any redirect for Ms. Nownes.

4 MR. SHAW: No, I don't think so, Your
5 Honor.

6 JUDGE CANFIELD: Thank you, Ms. Nownes.
7 You're excused. And we can either take a break now or
8 get started to some extent on the next witness.

9 MR. SHAW: Whatever you like.

10 JUDGE CANFIELD: I'm hearing a request to
11 take a break so let's take a 10-minute break and come
12 back at 2:35.

13 (Recess.)

14 JUDGE CANFIELD: We're back on the record
15 after our afternoon break, and I believe Mr. Shaw is
16 ready to call his next witness.

17 MR. SHAW: Yes, Your Honor. Before I do
18 that, I would like to make a brief statement in regard
19 to the previous testimony. Rather than redirect or
20 recall the witness, I would just like to advise the
21 parties that notwithstanding the lack of an indication
22 to that effect in the DA tariff, it is the practice in
23 Washington, has long been the practice in the
24 Washington, that the DA operators accept requests for
25 two numbers, and we will be clarifying that in our

1 rebuttal testimony that that at least is the intent of
2 the company. If the tariff doesn't say that, the
3 tariff will be clarified to say that. I just wanted
4 to advise the parties of that, that is not an issue
5 with the company. We will be clarifying that in our
6 rebuttal testimony to make sure that the tariff gets
7 fixed so that that's clear because that's been the
8 long-standing practice.

9 With that we would call Ms. Santos-Rach.
10 Whereupon,

11 GERALDINE SANTOS-RACH,
12 having been first duly sworn, was called as a witness
13 herein and was examined and testified as follows:

14

15 DIRECT EXAMINATION

16 BY MR. SHAW:

17 Q. Would you state your name, address and
18 occupation for the record, please.

19 A. My name is Geraldine Santos-Rach, or Geri.
20 I work for U S WEST Communications. My business
21 address is 1801 California, Suite 4400, Denver,
22 Colorado, and I am a product cost specialist for U S
23 WEST.

24 Q. Ms. Santos-Rach, have you prepared or caused
25 to be prepared under your direction your prefiled

1 direct testimony T-13 and accompanying exhibits
2 confidential No. 14, confidential No. 15, confidential
3 No. 16, confidential No. 17 and confidential No. 18?

4 A. Yes, I have.

5 Q. Do you have any additions or changes that
6 you need to make in Exhibits 13 through 19?

7 A. No, I do not.

8 Q. So your testimony and exhibits as prefiled
9 are true and correct to the best of your belief?

10 A. Yes, they are.

11 MR. SHAW: Your Honor, move the admission
12 of T-13 and C-14 through 19 and tender the witness for
13 cross.

14 JUDGE CANFIELD: Yeah. There were the
15 confidential accompanying Exhibits C-14 through C-19.
16 The testimony is T-13. Any objections to those offered
17 exhibits?

18 Let the record reflect there are none, so
19 Exhibit T-13 is entered, and confidential Exhibits
20 C-14 through C-19 are so entered into the record
21 as sealed confidential exhibits subject to the terms
22 of the protective order.

23 (Admitted Exhibits T-13, C-14
24 through C-19.)

25

1 CROSS-EXAMINATION

2 BY MR. TRAUTMAN:

3 Q. Good afternoon. Could you turn first to
4 page 2 of your testimony, and looking at the response
5 to the question on line 6, "What are your present
6 duties as a product cost specialist," one of your
7 responsibilities, one of the duties that you mention
8 is what you call, "economic cost method resolution."
9 Could you tell me what that duty entails.

10 A. Certainly. As one of my functions, the
11 company would consider me a subject matter expert in
12 terms of application of some of the economic principles
13 to costing in the telecommunications industry. And
14 what would occur is if a cost analyst who works in the
15 cost organization had a question on what should I do in
16 a particular situation because of something unique or
17 whatever, they would come to me and ask for advice on
18 potentially how do I implement and how do I perform a
19 particular study. It may be an issue of service
20 definition in how do we apply costs for a service, it
21 may be application factors. A variety of things.

22 Q. What do you mean by economic cost methods?

23 A. The types of studies that we perform are
24 economic costs, and so it's in the context of
25 economics that we attempt to perform our studies, and

1 so when I say economic there it's in the context of
2 it's an economic study versus an accounting study.

3 Q. Then what are the cost methods that you're
4 referring to?

5 A. The cost methods are how you perform and
6 put together a cost analysis, taking and gathering the
7 information that's required from engineering, from
8 product management, from working with vendors,
9 collection of that data and how you would then
10 translate that down into the cost numbers that are
11 filed in a regulatory proceeding such as this.

12 Q. Turning to your exhibits. Do your Exhibits
13 C-14 through C-19 show the cost summaries for complex
14 lines, directory assistance, the network access
15 channel or NAC, channel performance and transport?

16 A. That's correct. There's also stand-by
17 line in there as well. I think you missed that.

18 Q. Were the cost studies produced by you or
19 under your direction?

20 A. They were produced by members of the cost
21 organization, by costs analysts. In terms of
22 direction, some basic principles have been laid out and
23 those costs analysts work by those principles.

24 Q. Who are the members of the cost -- was it
25 cost analyst organization?

1 A. Right.

2 Q. Who is that?

3 A. They are employees of U S WEST. In terms of
4 number somewhere between 75 and 100 people who perform
5 economic studies, economic cost studies.

6 Q. Where are they located?

7 A. Denver, Seattle, Minneapolis, Des Moines,
8 Omaha.

9 Q. Which one of them produced the cost studies
10 in your exhibits?

11 A. A variety of people perform individual
12 studies.

13 Q. Could you explain how a cost study is
14 produced within the company?

15 A. Certainly. An economic cost study involves
16 a lot of work and research by the cost analyst that's
17 performing the study. One of the first things that
18 they would do is work with product management to get a
19 definition of what the service is that they're
20 attempting to cost, and then they would go out and,
21 either through models that have been developed based
22 on the use of equipment that are used frequently within
23 U S WEST, would identify investments associated with
24 that that U S WEST has to expand to produce the
25 service.

1 They would collect information concerning
2 how the product is proposed to operate, get estimates
3 of expenses that go along with those services, and work
4 with engineering, work with the billing people, work
5 with product management to collect the information
6 that's required to put the studies together.

7 Q. Who initiates the request for the study?

8 A. In general the requests for a study is
9 initiated by product management. There are exceptions
10 to that, but generally that's the case.

11 Q. Would it be correct to say that state
12 commissions may have different requirements on what
13 kind of cost studies may be used to support rates?

14 A. Certainly. State commissions can require
15 many things, many looks at cost perspectives.

16 Q. Does one of your duties in dealing with
17 economic cost method resolution consist of knowing the
18 differences in different states, methods of doing cost
19 studies?

20 A. From the -- to the extent that there may be
21 some special requirements for filings in states, that
22 is something that the cost analyst and myself would
23 hope to accommodate, that's correct. However, again,
24 what we would be looking to do is identify what from
25 our perspective is the appropriate cost for pricing

1 decisions.

2 Q. Is it your testimony that all of the cost
3 studies which support the cost summaries in this case
4 are long-run incremental cost studies?

5 A. Yes, they are. With the context being that
6 I believe the directory assistance study is, to a
7 certain extent, more average than perhaps some of the
8 others because of the nature of it being primarily
9 driven by labor-type expenses, but they're long run
10 and they're economic.

11 Q. What is it that distinguishes a long-run
12 incremental cost study from any other kind of cost
13 study?

14 A. A long-run incremental cost study is
15 distinguished by, I guess, the terminology that you've
16 got in front of it. Long run takes a perspective of
17 looking forward and implementing technologies that are
18 anticipated at the time the study is performed going
19 forward. That is contrasted to short run in that
20 short run may take a look at you can have some inputs
21 into a study that vary in the short run or that don't
22 vary in the short run but do vary in the long run. The
23 long run would give you a chance to look at all your
24 inputs to vary.

25 An incremental refers to a change in the

1 perspective that you're taking a look at a situation
2 with or without something and that there is an
3 increment in there. And I believe within my testimony
4 some of that was defined as well.

5 Q. I would like to turn now to the subject of
6 cost models. Each of the cost summaries you're
7 sponsoring were produced by specific cost models; is
8 that correct?

9 A. Can you explain to me what you mean by cost
10 models?

11 Q. For example, the RLCAP model.

12 A. That is a cost model.

13 Q. Were cost models used for the other cost
14 summaries?

15 A. The cost models in the context of like an
16 RLCAP where it's a PC-driven mechanized-type process
17 were also done for the channel performance and
18 optional features, which was the CTEC study. The
19 usage piece of the complex line used a model called
20 RINCAP. The interoffice transport also used RINCAP
21 model based on interoffice transport. However, the DA
22 study is really more of a spreadsheet-type operation on
23 a PC designed to meet the needs for the DA study.

24 Q. Is it correct that the company may produce
25 more than a single cost study for a particular service

1 or function?

2 A. I guess I'm not sure what you mean by more
3 than one study for a particular --

4 Q. For example, transport.

5 A. At any given point in time?

6 Q. Can you tell us the answer to that?

7 A. Well, I mean, we're continuously in the
8 process of updating cost information. We can perform
9 a study now and we may perform a study a year from now
10 and we may perform a study two years from now, so we
11 perform studies continuously.

12 Q. Would you produce more than one cost study,
13 for example, both an embedded cost study and a long-
14 run incremental cost study for a particular service
15 such as transport?

16 A. By choice, within our organization? For
17 pricing --

18 Q. Yes.

19 A. For pricing decisions our group would
20 perform the long-run incremental cost studies. If we
21 were required to perform something else because of
22 other regulatory requirements, we would do so, but for
23 pricing decisions we would rely upon a long-run
24 incremental cost study.

25 Q. Can you tell me how the decision was made

1 as to the kind of cost models that were used to
2 support the filings in this case?

3 A. I'm not sure I understand your question.

4 Q. Was a decision made as between different
5 types of cost models that might be used to support the
6 various filings?

7 A. For example RL cap in support of the access
8 line versus what else?

9 Q. Well, for example, long-run incremental
10 costs versus some other type of cost study.

11 A. It has been standard practice for U S WEST
12 for extensive period of time since I've been within the
13 cost organization to perform long-run incremental cost
14 for pricing decisions as the norm.

15 Q. Turning to page 9 of your testimony,
16 please. Bottom of page 9 to the top of page 10 you
17 state that terminal loop service incorporates the
18 equivalent of an analog private line NAC. What do
19 you mean by the term equivalent?

20 A. It is -- as Mr. Rees explains, it's
21 essentially the same service. There is a specific type
22 of connection there that is the same whether it's used
23 for analog private line or whether it's used for the
24 term loop. In addition, there is additional channel
25 performance element and if required there's an

1 equivalent transport element.

2 Q. When we asked what you meant by equivalent,
3 you said they're the same. Is there any other -- how
4 are they the same?

5 A. As Mr. Rees explained, it's the same
6 technical requirements.

7 Q. Is it functional and technical?

8 A. As Mr. Rees explained, that's -- from the
9 product perspective they're the same service.

10 Q. This is not from your perspective?

11 A. Well, from the cost perspective as well.
12 The same equipment is used to provide the services.

13 Q. At page 10, beginning at line 24, you
14 discuss the main distributing frame connecting
15 equipment costs. How is this cost component related
16 to the nontraffic-sensitive cost component for complex
17 lines that you discuss on page 5 of your testimony if
18 you will refer to both places?

19 A. On page 11.

20 Q. Page 10, beginning at line 24, the last
21 paragraph. It refers to the main distributing frame
22 connecting equipment costs.

23 A. And what was the other reference?

24 Q. Page 5. On line 18, you refer to
25 nontraffic-sensitive costs for complex lines. How is

1 the former component related to the
2 nontraffic-sensitive costs component.

3 A. The best way that I can describe it is that
4 the main distributing frame costs associated with the
5 network access channel is less equipment than is
6 required to provide the nontraffic sensitive central
7 office equipment. As stated on page 5, lines 20 to 22,
8 "This equipment connects loops to the central office
9 and includes the line termination card of the central
10 office switch." The network access channel is, as Mr.
11 Rees indicated, a nonswitched-type connection. When
12 you have a business line it is a switched connection
13 and the switched connection includes additional
14 equipment.

15 Q. So is the only difference a line
16 termination card?

17 A. I believe there is some other miscellaneous-
18 type items as well, but the line termination card is
19 the major piece of that.

20 Q. Do you know what those miscellaneous items
21 are?

22 A. I can provide you a list of those and I
23 believe it may be in fact -- those items may have been
24 identified as part of some of the information requests
25 in the nontraffic-sensitive central office equipment

1 portion of the documentation.

2 Q. Do you have with you a copy of -- it would
3 be -- staff data request 9? It's not WUT request 9.
4 I believe it was a prior staff informal data request.

5 A. We're searching.

6 MR. SHAW: Your Honor, would counsel have a
7 copy of that? May take us a while to dig through
8 three boxes of stuff.

9 JUDGE CANFIELD: That might be helpful.

10 MR. SHAW: We now have it, Your Honor.

11 Q. Do you have the cover page to that study?

12 A. Yes, I do.

13 Q. In the staff data request 9 and advice 24 --

14 A. Drop that.

15 Q. On the cover of the study the study says,
16 "existing technologies costs." Do you see that?

17 A. I'm sorry. Maybe we're not on the same. I
18 do not find that. This is staff request No. 9?

19 Q. 9.

20 A. And the question?

21 Q. Is it advice No. 2412 T?

22 A. It's -- yes, I believe so, and you said
23 request No. 9?

24 Q. Yes.

25 A. And the question?

1 Q. The study says, "existing technologies
2 costs"?

3 A. No. I've got a request that says, "please
4 provide the detailed cost studies in support of the
5 mileage charges summary information previously
6 provided."

7 Q. And the response includes a study?

8 A. And the response includes a study.

9 Q. And does the cover sheet of the study say
10 "existing technologies costs"?

11 A. No, it does not. At least the first page
12 of it, unless something is out of order, but it does
13 not say that.

14 Q. Do you have the cover sheet in the middle
15 that says "1993 Washington VFDSO transport service"?

16 A. Yes, I do.

17 Q. And up in the right-hand corner it says
18 "existing technologies costs"?

19 A. Yes.

20 Q. Can you tell us what that term means?

21 A. Oh, certainly. The market services
22 organization at the time that this study was performed
23 was split into two groups that did cost studies, and
24 the market services organization is the organization
25 that actually performs the cost studies. That was

1 their old name. And the existing technologies costs
2 was costs that were performed for services that
3 already in existence and already tariffed. Then there
4 was another group that performed studies for new
5 service applications.

6 Q. So are there two different cost studies
7 supporting transport rates?

8 A. No. The rates -- the study as identified
9 here reflects the study that was -- that is currently
10 available and most recent for interoffice transport.
11 Maybe I can clarify this. That's the name of an
12 organization. It is not -- is not related to the
13 costs themselves. That's the name of the organization
14 that performed the studies.

15 Q. Existing Technologies?

16 A. Existing Technologies cost meaning that
17 they perform costs for existing services such as
18 private line, local transport, local usage.

19 Q. Could you turn now to public counsel's data
20 request 01-021. And the question is to identify by
21 cost study the date which each study was run and the
22 vintage of data that was used, and as a response you
23 included an attachment A for the services in this
24 proceeding, a one-page attachment.

25 A. I know what you're referring to and we're

1 just getting a copy here. Okay.

2 Q. You have that exhibit --

3 A. Yes.

4 Q. -- or that data request, in which attachment
5 you indicate that all the costs except for channel
6 performance costs are 1993 vintage; is that correct?

7 A. Yes.

8 Q. Were the 1993 costs for the NAC study --
9 that being the first one -- were they arrived at by
10 applying telephone plant index, TPI, factors to a base
11 year level of investment?

12 A. Yes, they were.

13 Q. And what was the year?

14 A. I don't have that with me. I would have to
15 refer to the study itself.

16 Q. Could you tell us what the base year is for
17 any of the other studies that are on attachment A to
18 data request 01-021?

19 A. I would have to go back and look at the
20 individual studies and pull the data. Generally, what
21 you find is that there's a variety of inputs that go
22 into the studies and the data and vintage or the data
23 can actually vary from what type of -- with each type
24 of input.

25 MR. TRAUTMAN: As record requisition No. 11

1 we would like to request that the base years for each
2 of the services on attachment A be provided.

3 MR. SHAW: Your Honor, I believe that's
4 already been provided. The staff has long had the
5 cost studies. Are they saying they can't find them
6 and that they need the company's assistance to find
7 them? I don't understand the purpose of this.

8 JUDGE CANFIELD: Maybe I could get some
9 clarification on that before I put somebody to the
10 burden of doing something that may have already been
11 provided.

12 Q. Does each cost study identify the base year
13 level of investment?

14 A. I want to say in general, yes, that would
15 be the case in the supporting material. I can't think
16 of any exceptions where that data would not be in
17 there.

18 JUDGE CANFIELD: Maybe that's something
19 that could be worked out informally after checking it
20 further.

21 MR. TRAUTMAN: We'll withdraw the request
22 tentatively and see if we can get that information
23 otherwise.

24 JUDGE CANFIELD: Okay.

25 Q. Yesterday Mr. Rees deferred to you

1 questions concerning nonrecurring charges. Are you
2 familiar with nonrecurring charges?

3 A. I'm familiar with nonrecurring costs, not
4 necessarily nonrecurring charges.

5 Q. Yesterday we asked about the proposed
6 nonrecurring charges for existing term loop services
7 that were shown in the proposed private line tariff.
8 It was U-28 on sheets 28 through 32, and I believe
9 that was Exhibit 5 to Mr. Rees' testimony.

10 A. Is that tariff information again or cost
11 information?

12 Q. We asked who to direct questions about
13 nonrecurring charges to and I believe he directed them
14 to you.

15 A. It was my understanding that Mr. Rees
16 directed nonrecurring cost questions to me, but --

17 Q. In reading the testimony of the company in
18 this case, staff cannot find any supporting testimony
19 regarding the proposed level or the reasonableness of
20 the proposed nonrecurring charges. Can you direct us
21 to where that support is contained in the testimony?

22 A. For specifically what are you looking for?

23 Q. The proposed level -- the nonrecurring
24 charges that were in the private line tariff U-28 on
25 sheets --

1 A. From a rate perspective that would have to
2 be directed at Mr. Rees' testimony as to if you're
3 looking at what is the rate.

4 Q. Are you supporting, then, the nonrecurring
5 cost study which underlies those charges?

6 A. I would be the person to address
7 nonrecurring cost questions to.

8 Q. Do you have the cost studies supporting the
9 proposed nonrecurring rates with you?

10 A. I'm not sure I have it with me. I believe
11 the study was filed as part of an information request.

12 Q. It was. Can you explain how the costs in
13 those -- how the costs were estimated?

14 A. In a general context?

15 Q. Yes.

16 A. Certainly. For nonrecurring costs what we
17 will do is work with our installation and with our
18 service representatives and all the other players that
19 are involved as we install and turn up a circuit of
20 some sort, and we'll get time estimates from them as
21 far as how long it takes on average basically to
22 perform a task to get the service up and running. And
23 based on those estimates we then apply labor rates for
24 their targeted work function and do a multiplication of
25 estimated time times labor rate to arrive at a cost

1 for that particular function. Then all the functions
2 are summed together to identify a total and then we
3 will also apply some factors called administrative
4 factors as well as others to get any of the
5 support-type functions for people that are directly
6 related to the function that they perform.

7 Q. Is it correct that the cost study provides
8 estimates of costs for both the initial circuit
9 installation and subsequent circuits installed at the
10 same time?

11 A. In many of our nonrecurring studies we will
12 identify the costs associated with a first circuit and
13 an additional circuit, and what you can tend to find
14 is that because much of the time is spent in general
15 order negotiation for -- to get all the customer
16 information, as you add additional circuits on that
17 same order, you can have a different cost for initial
18 versus subsequent.

19 Q. Is it correct that the cost for subsequent
20 provisioning is substantially less than the costs for
21 the initial circuit?

22 A. I've never, that I can recall, seen any
23 exceptions to that.

24 Q. Is that a yes?

25 A. Yes.

1 MR. TRAUTMAN: No further questions.

2 JUDGE CANFIELD: Mr. Nettleton, any
3 questions for this witness?

4 MR. NETTLETON: I have a few, yes.

5

6 CROSS-EXAMINATION

7 BY MR. NETTLETON:

8 Q. Good afternoon, Ms. Santos. I'm John
9 Nettleton and I am representing the Association of
10 Washington Cities here. I have a few questions for
11 you, and they -- they're not financial questions. I'm
12 just kind of interested in how you go about doing your
13 cost studies and one of the questions I have is do you
14 try to quantify what the effect is of the different
15 costs in price increases on government customers of
16 the terminal loop services?

17 MR. SHAW: I will object. It's beyond the
18 scope of the direct, Your Honor. It's been repeatedly
19 identified, Ms. Santos-Rach is the cost expert,
20 identifies the costs which are the floor for pricing
21 and pricing is set by the previous witnesses and
22 Ms. Santos-Rach talks nothing about setting prices for
23 any particular customer group in her direct testimony.

24 JUDGE CANFIELD: Were you going to get into
25 a question more directly related to costs,

1 Mr. Nettleton, or maybe you can clarify that. I'm
2 tending to agree with Mr. Shaw as it stands right now
3 but let's hear some explanation from you.

4 MR. NETTLETON: Sure. Let me ask a
5 different question.

6 Q. I wanted to ask, who tells you or who, I
7 guess, initiates a cost study?

8 A. As I've indicated in the general context
9 it's initiated by product management. There are
10 exceptions to that.

11 Q. The cost studies which were done for this
12 filing, is it correct that the product manager who --
13 who is the product manager for terminal loops that
14 asked for this cost study?

15 A. I believe that was Mr. Christianson.

16 Q. I'm going to ask this in a general sense,
17 have you ever determined percentage of terminal loops
18 which are utilized by government as opposed to business
19 customers?

20 A. Have I done that, no, I have not.

21 Q. Do you know of anyone who has ever done
22 that?

23 A. I don't know of anyone who has potentially
24 from the product side. Perhaps someone else has, but I
25 am not aware of that.

1 MR. NETTLETON: That's it.

2 JUDGE CANFIELD: Ms. Frickelton, questions.

3 MS. FRICKELTON: No.

4 JUDGE CANFIELD: Ms. Marcus.

5

6 CROSS-EXAMINATION

7 BY MS. MARCUS:

8 Q. Good afternoon.

9 A. Good afternoon.

10 Q. I would like to start with some questions
11 about the RL cap study. Do you have that with you, the
12 one that you provided to Dr. Zepp and that I believe is
13 the basis for the NAC rights in this case?

14 A. Are we going to be getting into specific
15 pages and so forth?

16 Q. Yes.

17 A. I have that.

18 Q. If you can't find it or for any of the
19 studies that we talk about this afternoon, I have made
20 a copy of the pages so if you think it will be easier
21 for me to give you copies, please let me know.

22 A. Given the volume of paper we generally tend
23 to create.

24 Q. Now, in the RL cap study there's a page
25 called Loop Investment and Cost Summary.

1 A. I have it.

2 Q. Towards the bottom of the page, give this a
3 number of loops that -- gives us the number of loops?

4 A. Yes.

5 Q. Could you tell me what that number of loops
6 consists of?

7 A. That represents the number of network
8 access channels that would have been included within
9 the study.

10 Q. Were those private line loops or terminal
11 loops or a combination?

12 A. It's my understanding they are a
13 combination.

14 Q. Did you make any effort to divide out the
15 number of terminal loops versus the number of private
16 line loops?

17 A. No, we did not.

18 Q. Who decided the number of loops or the type
19 of loops that went into this sample?

20 A. Actually, it was really a joint decision
21 between the product manager and the cost analyst as
22 the study was being performed. The product manager
23 indicated or the indication was that these are
24 essentially all the same type of service and their
25 ultimate goal was to set up a pricing plan that does

1 not differentiate based on any distinguishing
2 features, so the sense was that we needed to, from the
3 cost perspective, include both within the study.

4 Q. Now, in our record, DIS record requisition
5 02-013, we asked for the same material that was used
6 to support the Centrex case. Do you recall that?

7 A. Yes, I do.

8 Q. Do you have the same -- it would be the
9 same loop investment and cost summary sheet that was
10 used to support the Centrex case that would be in
11 response to DIS -- data request 02-013? You didn't
12 provide us with all of the documents. You said that
13 they were available to review in your office so it
14 would be one of those documents that were available for
15 review?

16 A. I'm not sure we've got it with us then. Do
17 you have a copy of that?

18 Q. Looking at that study -- at the top of that
19 study it says that it was run in 1990; is that
20 correct?

21 A. Yes.

22 Q. Where is the study, the numbers run for the
23 RL cap study supporting this case was run in 1993?

24 A. That is correct.

25 Q. Looking at the cost summary for the 1990

1 Centrex case, do you see the number of loops down at
2 the lower left-hand column?

3 A. Yes, I do.

4 Q. Would you tell me the composition of those,
5 what made up that number of loops?

6 A. No, I can't tell you. I assume it was
7 essentially the same thing but I cannot say that for
8 positive.

9 Q. Now, do you see that the base year for that
10 number of loops then is 1990; is that correct?

11 A. Right.

12 Q. And the base year for the loop in the study
13 for this case was one year later, 1991; is that
14 correct?

15 A. Yes.

16 Q. Now, can you find out what the composition,
17 what makes up the composition of those loops?

18 A. For the 1990 study?

19 Q. Correct.

20 MS. MARCUS: I would like to make that a
21 record requisition.

22 JUDGE CANFIELD: Next record requisition
23 number is No. 12.

24 MR. SHAW: Your Honor, could I ask counsel
25 when she uses the term, so I can understand, what

1 makes up the composition, are you talking about the
2 kinds of services that goes into that loop count?

3 MS. MARCUS: Correct. I'm wondering if
4 that also is private lines and terminal loops or just
5 private lines.

6 MR. SHAW: Thank you.

7 (Record requisition 12.)

8 Q. You would agree, wouldn't you, looking at
9 those two sets of numbers that there is a substantial
10 increase in the number of loops in the 1991 base year
11 study?

12 A. Yes, there is, but there doesn't seem to be
13 much difference in the actual cost level.

14 Q. Do you know why there was such a large
15 increase or is that part of figuring out --

16 A. I can't tell you. I can't tell you until I
17 discern what was included in the base of the 1990
18 study.

19 Q. Do you have DIS data request 02-013 still in
20 front of you?

21 A. Which one was this one?

22 Q. In answer to the question they have
23 confidential attachment A, which is the Washington
24 subscriber loop and access line study for network
25 access channel. Do you have that?

1 A. This is the NAC study.

2 Q. Correct. It's a three-page document
3 Washington Subscriber Loop and Access Line Study for
4 Network Access Channel.

5 A. I think I better have you show me a copy
6 because I'm getting confused as far as which request.
7 What was the question that went with this?

8 Q. I haven't asked you one yet. On the last
9 page you give numbers for both average fill and
10 objective fill.

11 A. No. I'm sorry, I need to know the context.
12 What was the question that this was provided in
13 response to.

14 MR. BUTLER: DIS 02-013?

15 THE WITNESS: And the question, the words
16 in the question.

17 MR. BUTLER: She just asked if you found
18 that page.

19 JUDGE CANFIELD: She may not have the data
20 request in front of her.

21 THE WITNESS: I don't have it in front of
22 me.

23 MR. BUTLER: Says "please provide a copy of
24 the loop cost estimates made by U S WEST in docket Nos.
25 UT-911488, UT-911490 and UT-920252.

1 THE WITNESS: Centrex plus docket? Okay. I
2 just want to know the context.

3 Q. And that provides both average fill and
4 objective fill?

5 A. That is correct.

6 Q. In the Centrex case, is it true that U S
7 WEST used objective fill to determine the appropriate
8 cost and arrive at the appropriate price floor for that
9 service?

10 A. In the Centrex plus document U S WEST
11 provided both an objective fill and an average fill
12 number. Both those pieces of information were provided
13 to product management for use in their decision, their
14 pricing decision.

15 Q. And was the ultimate pricing decision based
16 on the objective fill number?

17 A. The pricing decision from my understanding
18 was really made based on a combination of those two.
19 The product manager wanted to know, as well the
20 objective fill number, they wanted to understand the
21 difference between the objective and the average fill.

22 Q. Do you know whether in Oregon U S WEST uses
23 objective fill to estimate the costs in order to arrive
24 at the appropriate price floor when no imputation is
25 required?

1 A. In the context of what?

2 Q. In setting rates for their services.

3 A. Are you talking services?

4 Q. Yes.

5 A. As a result of the Oregon cost workshops?

6 Q. Yes.

7 A. As U S WEST performed cost studies for
8 building blocks, the objective fill level was
9 identified. However, in addition to that, information
10 was provided associated with the average fill.

11 Q. Information was provided but the rates were
12 based on the objective fill numbers?

13 A. Well, what you need to understand is the
14 Oregon cost workshop identified costs for building
15 blocks. After the building block costs were
16 identified they're in the process right now of taking
17 those building blocks and translating those into
18 services. We're not dealing with an equivalent
19 situation here.

20 Q. Those are the costs that are used for the
21 pricing decisions that U S WEST makes; is that correct?

22 A. As U S WEST performs its pricing decision,
23 it going forward is looking at both those pieces of
24 information.

25 Q. In the case presently before us, is it true

1 that U S WEST is using the average fill factor in order
2 to determine what the appropriate price floor should be
3 so to set the rates?

4 A. U S WEST has provided costs based on average
5 fill in this proceeding, yes.

6 Q. You haven't provided the costs based on
7 objective fill in this case; is that correct?

8 A. For the equivalent number of objective fill
9 was provided associated with the DA study. That is one
10 of the more recent studies performed by U S WEST and
11 does reflect the volume-sensitive average service
12 incremental and then the inclusion of shared residuals,
13 which is the direction that U S WEST would be going on
14 a moving forward basis.

15 Q. But the objective fill numbers were not
16 provided for any other service in the present case
17 except directory assistance?

18 A. Yes.

19 Q. And isn't it true that objective fill would
20 normally give you a lower cost factor than average
21 fill?

22 A. The objective fill by the basis of its
23 definition would identify a lower cost.

24 Q. How do you decide whether or not to use
25 objective fill or average fill?

1 A. I think you have to take a look at what the
2 meaning of both of those is and that's why on a going
3 forward basis US West's intention is to provide both.
4 The objective fill number gives you a bottom line
5 volume-sensitive type of a cost. However, that
6 doesn't necessarily give you all the information that
7 you need for pricing, especially in some services as
8 we're talking about here today. The difference
9 between the two would reflect the cost of average
10 growth spare capacity for the service and that growth
11 spare capacity could relate to this service as well as
12 additional services, and the sense is, as we're going
13 to price these types of products, we want to know that
14 these services are taking -- pick up their fair share
15 of that growth spare capacity as well.

16 Q. Is there any reason why you only provided
17 and used the higher average fill in the term loops
18 filing rather than providing either both the average
19 fill and objective fill or the objective fill?

20 A. At the time that the studies were filed and
21 the filing was made, U S WEST had not made the decision
22 going forward to provide both those pieces of
23 information.

24 Q. Could you explain what the main
25 distribution frame is?

1 A. The main distribution frame is -- I
2 visualize it as a great big steel frame of equipment
3 where cable coming in from the outside is
4 interconnected to various -- wherever the passageway
5 would be going forward. And what it is, it's a block
6 of equipment where you've got a bunch of wires coming
7 in on one side of the frame and on the other side of
8 the frame those wires are dispersed to various other
9 frames or other pieces of equipment within the central
10 office.

11 Q. Now, in your cost study you base the costs
12 for the main distribution frame or MDF on plant
13 category 377 which is a digital switch; is that
14 correct?

15 A. That is correct.

16 Q. Why was that plant category used as opposed
17 to a plant account for an analog switch?

18 A. On a going forward basis, which is what
19 economic studies look at, we would want to use the
20 forward looking technology that U S WEST would be
21 implementing as we add growth of a particular type of
22 equipment. And we have a perspective that we are not
23 adding analog switches. We are adding digital
24 switches.

25 Q. But currently most of the terminal loops

1 from what I understand are terminating in an analog
2 circuit?

3 A. Term loops and analog private line by
4 definition are an analog-type service. That is what
5 the customer requests.

6 Q. So you're basing your cost study on a
7 digital switch for a service that is currently an
8 analog service?

9 A. I'm sorry. I don't understand your
10 question.

11 Q. Well, in your RL cap study you're using a
12 digital switch to determine costs?

13 A. That is the forward looking technology for
14 switching.

15 Q. And I'm just trying to understand that.
16 You are basing costs on something you anticipate in
17 the future as opposed to the reality of the way the
18 systems are set up today.

19 A. That's a basic premise of economic costing
20 is that you're looking forward. You're not looking
21 backwards.

22 Q. Now, the MDF costs that you have estimated,
23 is that for private lines?

24 A. The main distributing frame is associated
25 with a nonswitched service, which is what private line

1 is. Now, the main distributing frame itself is, as I
2 answered previously, is also part of the nontraffic-
3 sensitive COE costs. However, there is more with
4 that than there is with the MDF itself.

5 Q. Does your MDF cost anticipate the need to
6 connect the local loop to the U.S. West interoffice
7 facilities?

8 A. I'm not sure how -- what your question
9 means.

10 MS. MARCUS: I will withdraw that.

11 Q. Now, does your RL cap costs include the
12 team testing for loops?

13 A. I'm not sure. There is a maintenance factor
14 that is applied to the investment, but I'm not sure and
15 generally that maintenance includes some testing.
16 However, I'm not sure of the extent of the testing.

17 Q. So any testing for component -- you're not
18 sure if any testing component would be a part of the
19 RL cap maintenance study?

20 A. My sense is that there is some testing
21 included in there. I would have to double-check on the
22 factor to say a definitive yes or no.

23 Q. Could you double-check that?

24 A. Uh-huh.

25 JUDGE CANFIELD: Is that going to be

1 handled off the record or are you making that a record
2 requisition?

3 MS. MARCUS: I will make that a record
4 requisition.

5 JUDGE CANFIELD: We'll assign record
6 requisition No. 13 to that request.

7 (Record requisition 13.)

8 Q. Have you seen confidential Exhibit C-6 that
9 was attached to Mr. Rees' testimony.

10 A. Is that the exhibit that's labeled Terminal
11 Loops Historical Demand?

12 Q. Yes, it is.

13 A. Yes.

14 Q. Did you use that number or that sample to
15 prepare any of your cost estimates of NAC costs for
16 this case?

17 A. No. As I've indicated, the NACs that are
18 included within the study is reflective of the NACs
19 for both terminal loops and private line.

20 Q. I would now like to turn to the CTEC study.

21 A. We thought we were having fun before.

22 Q. Just a general question. Did you use the
23 inventory of loops in that -- in confidential
24 Exhibit C-6 in computing the channel performance
25 costs?

1 A. In C-6? Again, the historical -- that
2 historical terminal loop system, again, the reflection
3 is a composite of all the equivalent private line
4 services, including terminal loops.

5 Q. If you remember, when we started with the
6 RL cap study, we talked about two different studies
7 that had two different number of loops for each study.
8 Did you use any of those numbers of loops in doing
9 your channel performance study?

10 A. It's my understanding that at the time the
11 CTEC study was performed it took a look at
12 distributions that mirrored the RL cap study at the
13 time it was performed in terms of the distribution.
14 The CTEC study is a little bit older than the study
15 that -- the RL cap study that was filed here. So at
16 the time the CTEC study was performed, there was an
17 interrelationship between that and the most current RL
18 cap study.

19 Q. I guess we've had a little confusion about
20 what year CTEC study was used to support this filing.
21 Do you have DIS 02-019 data request?

22 A. Yes, I do.

23 Q. Now, in response to subsection E where we
24 asked what year was used to produce the CTEC cost
25 estimates in this docket, originally you gave an

1 answer of 1987 and we understand that that was a
2 misreading of the question. Could you tell me what
3 year was used to produce the CTEC cost estimates in
4 the -- in this docket that we're doing today?

5 A. The cost studies in this docket reflect a
6 1992 level cost.

7 Q. And could you tell me how or where I could
8 find the number of loops that were used in this CTEC
9 study that was produced for this case, for this
10 docket?

11 A. I would have to go back and identify that
12 information.

13 Q. Could that be done?

14 A. We certainly can try.

15 MS. MARCUS: I would like to make that a
16 record requisition which included the base year, the
17 inventory.

18 JUDGE CANFIELD: We'll assign record
19 requisition No. 14 to that request.

20 (Record requisition 14.)

21 Q. Although we don't know the number, do you
22 know if the loop sample was just terminal loops,
23 private lines or a combination of both?

24 A. Combination.

25 Q. Now, could you turn to page 1 of the CTEC

1 study.

2 A. Do you have a page?

3 Q. The top of the page says No. 1, product
4 definition.

5 A. The index or the actual?

6 Q. The actual page. Your pages aren't numbered
7 so this might be difficult. I would like you to look
8 at the last sentence of the first paragraph.

9 A. Yes.

10 Q. Does this mean that U S WEST limited its
11 study to circuits provided on just copper?

12 A. No. This study reflects circuits provided
13 over metallic or copper facilities and some pairgain.

14 Q. Can you explain the write-up -- forget
15 that. Could you turn to the top of the page where it
16 has No. 2 Executive Overview.

17 A. Executive overview or executive summary.

18 Q. It says 2 Executive Overview and right
19 after that, it says 2.1 Costs Methodology.

20 A. I'm with you finally.

21 Q. Could you look at the third and fourth full
22 paragraph on that page?

23 A. Full paragraphs?

24 Q. The first paragraph I'm going to look at
25 begins with the word "wants." That paragraph and the

1 next paragraph.

2 A. The third and fourth paragraphs there
3 "wants selected"?

4 Q. Right. Does this mean that in states with
5 generally longer NACs than in Washington there will be
6 different weights given to the subdesign and thus
7 there will be higher channel performance cost estimates
8 in those states?

9 A. There may be. Not necessarily would be.

10 Q. For each channel performance cost -- well,
11 each channel performance cost estimate is a weighted
12 average of the various costs of the various
13 subdesigns; isn't that correct?

14 A. That is correct.

15 Q. And as I understand the CTEC study you get
16 different estimates of channel performance costs for
17 different states by using different state inventories
18 of loops; is that correct?

19 A. Based on state perspective of distance,
20 that's correct.

21 Q. And so then if I carry this further, a
22 state with a shorter NAC or shorter average NAC will
23 have different channel performance costs than a state
24 with longer NACs; is that correct?

25 A. I think you're making a leap to a

1 conclusion there that may or may not happen. I mean,
2 I could see where --

3 Q. Could you explain that, then?

4 A. As you're taking a look at each of the
5 individual links, generally what you see is you
6 require more channel performance as the distance gets
7 greater. However, there's not necessarily an equal
8 pattern that the type of -- you know, the type of
9 equipment required, that's not always an equal pattern
10 as far as what their prices and so forth are, so while
11 I would agree that your general pattern would happen,
12 I would not want to say equivocally that's what you're
13 going to see. There's a lot of other things that go
14 into the costs associated with this other than just
15 distance.

16 Q. Taking those caveats into account, a state
17 which you serve that has a denser population area, and
18 therefore you would have shorter NAC, will have
19 different channel performance cost estimates than a
20 state that's more rural?

21 A. Not necessarily. Again, you've got to take
22 a look at all the piece parts before you're going to
23 decide that the state of Washington's costs are less
24 or more than the costs associated with Minnesota.

25 Q. And would that be -- well, okay. If you

1 could turn now to the page that at the top says 7.2
2 Amp Module.

3 A. 7.2?

4 Q. Right. Amp module it says on top.

5 A. I finally found it.

6 Q. If you could read the first paragraph after
7 the title overview.

8 A. (Complying). Do you want me to actually
9 read the paragraph or did you have a question?

10 Q. I have a question after you read it. This
11 page is marked confidential, is it not?

12 A. Yes, it is. I'm not sure that the context
13 of that particular paragraph is necessarily
14 confidential, however that particular paragraph.

15 Q. So I could read the last two sentences so
16 you know what I'm talking about?

17 A. Yes.

18 Q. What we're looking at is, it says, "For
19 customers who are located near to their servicing wire
20 center, little or no equipment may be required to meet
21 signaling, transmission and other performance
22 parameters. For customers who are located far from
23 their servicing wire center, a considerable amount of
24 equipment and/or additional NACs may be required."

25 My first question is, does this mean that

1 the cost of channel performance is sensitive to the
2 distance and that the longer the loop the greater the
3 channel performance costs? Is that what those
4 sentences are telling me?

5 A. No. I don't think it's exactly that. I
6 believe what it's saying is that the longer the leap
7 the greater the need for channel performance and I
8 wouldn't want someone to necessarily make the loop to
9 that that that automatically translates again to a
10 higher cost. I would say in general that's true but
11 again I would not want to make it as a global
12 statement.

13 Q. What if the long circuit is a circuit
14 provided with a pairgain system instead of an analog
15 system? Isn't it true that the longer circuits on the
16 pairgain may not need as much channel performance as
17 those on an analog?

18 A. I would not agree with that statement. In
19 fact, I would tend to say the reverse.

20 Q. Could you tell us why?

21 A. The pairgain equipment tends to require
22 additional things to or additional capabilities and
23 additional equipment to allow the channel performance
24 and the signaling to occur. And in my review, just
25 kind of scanning the investment numbers associated

1 with pairgain versus metallic facility, the pairgain
2 appears to be higher in terms of a cost level. And
3 again, that's a general look at things, not a targeted
4 study.

5 Q. Now, the first sentence that I have read,
6 does that apply to the need for metallic facility
7 terminals?

8 A. A metallic facility terminal is a type of
9 equipment that is used to provide some of the channel
10 performance and signaling-type features, so that is
11 the classification of or one of the classifications of
12 additional equipment that is required associated with
13 channel performance and the signaling conditioning.

14 Q. And would be required -- may be required
15 more for a longer NAC than a shorter one?

16 A. Well, I'm not sure what you mean by more.
17 There's various types of equipment that could be
18 used to provide the channel performance. As Mr. Rees
19 indicated, it can occur at the customer premises. It
20 can occur in the central office. It can occur in, for
21 example, remote terminal, and perhaps you might have --
22 as you require more you might have an MFT plus
23 something else somewhere else in the circuit. Maybe
24 it's another MFT, maybe it's not. But that is one
25 type of equipment that is used to provide the channel

1 performance.

2 Q. Do you know if U S WEST would be the one who
3 would be responsible in telling the customer what type
4 of channel performance they would need on their
5 circuit?

6 A. As Mr. Rees indicated, U S WEST would
7 certainly work with the customer to determine what type
8 of equipment and what their special needs are
9 associated with the private line or -- as it exists
10 today as the term loop service but equivalently the
11 same thing. Obviously, the customer is the ultimate
12 decision-maker as to what they want and need. As
13 Mr. Rees indicated, U S WEST would certainly want to
14 make sure that the customer is aware of potential
15 problems if in fact they did something that wasn't
16 within what we would classify the norm.

17 Q. Now, when the study was done to determine
18 the cost of channel performance, was it determined
19 that channel performance would be needed for every
20 terminal loop design?

21 A. I'm not sure what your question is. If your
22 question is did U S WEST consider the transmission
23 requirements that are normally associated with the
24 types of services that we have here, yes, we did. Our
25 regional engineering staff has provided the designs of

1 what is normally would needed to be provided in those
2 situations.

3 Q. And would you agree that there are certain
4 terminal loops, maybe short terminal loop services
5 currently in place, that don't require channel
6 performance?

7 A. I think there was some confusion here
8 previously with the response by Mr. Rees, but there
9 are situations where potentially no additional channel
10 performance equipment would be required, and in fact
11 there are instances within the cost study that was
12 performed where those are reflected within the study.

13 Q. Now, in the CTEC study there's a page
14 called Probability File?

15 A. Is it after the 7.2?

16 Q. Yes.

17 A. A lot after? I know what the context of
18 the file is. Do I need to look at it specifically?

19 Q. I have the page if you want.

20 A. That might speed up the process. This is
21 from which study?

22 Q. I believe this was part of the study that
23 was given to Dr. Zepp that was supposed to be the basis
24 for the study in this case, and I guess that's what our
25 question is, whether that's correct, since the date says

1 1988.

2 JUDGE CANFIELD: If it will take a little
3 time to find that we can certainly take a short break.
4 We were looking to do that along this time anyway. Why
5 don't we take a short stretch break and come back at
6 4:20.

7 (Recess.)

8 JUDGE CANFIELD: We're back on the record
9 now after a short break, and just before going on the
10 record there was a request to take up scheduling at
11 the outset since some individuals may not be returning
12 tomorrow and they would like to have some indication
13 of what the scheduling considerations were. There was
14 that request to have the scheduling bumped two weeks
15 assuming all parties agreed to waive the initial
16 order, which has been done, and the proposed schedule
17 that was circulated, I referred to you earlier, was to
18 change the prefile date for staff, public counsel and
19 intervenor testimony from May 20 to May 31 and to
20 change the prefiling date for company rebuttal from
21 June 6 to June 17, and the hearing dates that were
22 initially set for June 15 through 17 to be changed to
23 June 27, 29 and 30. There was a conflict on the 28th
24 that was being worked around there, but that's three
25 days that week, and then to bump the briefing date

1 from July 1 to July 15, and with the one extension of
2 the suspension period that was already made from the
3 end of July to the end of August, that would be the
4 suspension date being August 31, 1994, the date by
5 which the Commission would be entering its final
6 order. And that's the scheduling as it was discussed
7 off the record with the one accommodation of that one
8 date in between.

9 Are there any comments or objections to that
10 schedule as it's proposed now?

11 Let the record reflect there are no
12 additional comments or objections on that. And I am
13 assuming that the session for testimony from members
14 of the public would be specially set within that
15 time frame and I guess the details would have to be
16 worked out as far as the exact time and location set
17 aside for members of the public to testify, but that
18 will be clarified in the notice of hearing, so I
19 don't know if that would be necessarily Olympia or a
20 Seattle setting, so that may be subject to change, but
21 anyway, that's going to be covered in the notice of
22 hearing that's going to be issued, and with that there
23 being no objections, let's go ahead and adopt the
24 proposed schedule that I just outlined. May 31 date
25 for prefiling staff, public counsel and intervenor

1 testimony, June 17 for pre-filing company rebuttal. The
2 hearing dates for all of that, the staff, public
3 counsel, intervenor and company rebuttal on June 27, 29
4 and 30, and the simultaneous briefs due to be filed on
5 July 15, and I would propose to confirm that and send a
6 letter to all parties of record, including those that
7 aren't present today, so I am sure they would like to
8 have that information available as well.

9 With that adopted, we'll go ahead and
10 proceed, and there may be some that aren't going to be
11 here tomorrow that may want to ask their questions of
12 Ms. Santos-Rach at the conclusion of today's session
13 to alleviate the need to come back to just a few
14 questions and after we finish Ms. Marcus' questions I
15 will ask if there are any that want to question out of
16 order to accommodate that. Ms. Marcus.

17 Q. We were talking about that probability file
18 sheet from the CTEC study that had on the top
19 11-14-88.

20 A. Yes. As we reviewed the documentation,
21 this has been extracted from an example that was
22 included in the work paper documentation to show how
23 the CTEC model works. This is not the actual file
24 that was used in the performance of the study but is
25 an extract from that sample that explained the model.

1 Q. Now, we also had a lot of other pages that
2 also had the year 1988 on top in that same packet that
3 you're talking about. Is that the same explanation?

4 A. Yes. That one entire section is the model
5 explanation to show how the calculations within the
6 model work, and that is example data.

7 Q. Now, is there an updated document showing
8 this data for this docket?

9 A. No. That's part of the model documentation
10 and there is not -- that piece of it has not been
11 updated in terms of an example through the model.

12 Q. So is this the problem? Are these the
13 probability numbers that were used in the CTEC study
14 that is the basis of the costs?

15 A. No. Maybe I'm not making myself clear.
16 This is an example file. It is not data that was used
17 within the study, and in fact the entire spectrum of
18 information that was included in that sample section
19 or that example section is not the data that was used
20 within this study. That is just an example. There is
21 a file that is reflective of the probabilities
22 associated with the Washington CTEC study that was
23 used, not this example file.

24 MS. MARCUS: I would like to make a record
25 requisition for the data that was actually used in

1 this case. I believe we thought we had it and I guess
2 we didn't.

3 A. I believe it was provided in response to
4 the data from the March 18 meeting, I believe, but we
5 can double-check.

6 Q. I will double-check. I believe we didn't
7 ask for it because we thought we had it. If we have
8 it, then great; if not then I would like to make the
9 record requisition for the data.

10 MR. SHAW: Your Honor, we're convinced that
11 the parties have this data. It's the basic cost data
12 that has been supplied to them already.

13 MR. BUTLER: She just said she didn't.
14 That's an example file.

15 MR. SHAW: No, Your Honor. I'm suggesting
16 that they have it and perhaps they don't know they
17 have it. We would be willing to point out to them
18 where it is, but we have already supplied it.

19 JUDGE CANFIELD: Okay. I will assign a
20 record requisition number to that and if it turns out
21 that it's already been supplied that could certainly be
22 pointed out in what's been supplied. I don't want a
23 duplicate of it being supplied so I think it will be
24 workable and if it's determined it hasn't been supplied
25 then that will be supplied and if it has been that

1 could be pointed out as well as a part of record
2 requisition No. 15.

3 (Record requisition 15.)

4 Q. Now, at the bottom of the page, would you
5 tell me what interoffice is referring to?

6 A. That is data that is reflective of the
7 percent of interoffice circuits versus intra, and the
8 percentages in those last three lines are all -- play
9 into that. I would have to go back and check the
10 exact definition, but that's the application of those
11 numbers.

12 Q. Well, could you tell me what facility is?

13 A. That's the -- the facility is the --
14 reflective of the number of circuits that would rate a
15 facility that is interoffice versus intra.

16 Q. And then mix?

17 A. Those are all three related to those same
18 percentages.

19 Q. Thank you. Now, it's my understanding that
20 the CTEC study includes the cost of metallic facility
21 terminal in the designs of many of its circuits; is
22 that correct?

23 A. Yes.

24 Q. Are the metallic facility terminals always
25 required by the customer or can a PBX provide that

1 function?

2 A. I'm not a PBX expert and what capabilities
3 that the PBXs have. I believe Mr. Rees addressed some
4 of the issues around -- you've got to take a look at a
5 specific customer, look at what they have, what their
6 requirements are and design the service or the circuit
7 to meet whatever their requirements are.

8 Q. Would you know why U S WEST treats the
9 metallic facility terminals as customer premises
10 equipment -- why does U S WEST treat the metallic
11 facility terminal as customer premises equipment expect
12 the customer to provide them? Would you know that?

13 A. I think that the context that we do it is
14 our equipment provided on the customer premises.

15 Q. Right.

16 A. In terms of an option of the customer to
17 provide them versus -- I guess I'm not aware of any
18 reason why the customer couldn't, but again, that
19 probably should be addressed to Mr. Rees.

20 MS. MARCUS: I actually have nothing
21 further.

22 JUDGE CANFIELD: Thank you. Rather than go
23 down in order, I know Mr. Kahn estimated 30 minutes
24 and it's some 12 minutes to 5. We wouldn't have time
25 for that and there are a few that just have zero to

1 five minutes which maybe could be accommodated if they
2 weren't necessarily coming back. Those I've got
3 listed as Mr. Harlow having minimal questions as well
4 as Mr. Finnigan.

5 MS. ARNOLD: Your Honor, we have about ten
6 minutes of questions also.

7 MR. HARLOW: I have maybe a couple of
8 minutes of questions and would appreciate going out of
9 turn if the other parties would be willing to
10 accommodate that.

11 MS. ARNOLD: Maybe we could do five minutes
12 of questions, divide up the time.

13 JUDGE CANFIELD: Well, I'm agreeable.
14 Let's see what we can get done. If somebody wasn't
15 necessarily coming back, I would certainly want to
16 accommodate that.

17 MS. ARNOLD: We weren't planning on coming
18 back either.

19 JUDGE CANFIELD: Hearing the lowest bidder
20 Mr. Harlow indicated he just had a few questions.

21 MR. HARLOW: I will make every effort to
22 stay with that so everyone gets a chance.

23

24 CROSS-EXAMINATION

25 BY MR. HARLOW:

1 Q. Good afternoon. I understood you to
2 testify on earlier cross -- I actually don't recall
3 who it was -- that you rely on the product managers
4 for providing you with the definition of what's
5 included in the service that you're studying when you
6 develop the costs?

7 A. We certainly need as a starting point a
8 service definition around what we're costing, that's
9 correct.

10 Q. Doesn't this have the effect of -- doesn't
11 this influence what the ultimate cost figures are
12 going to be, how you define the service?

13 A. To the extent that we have to -- we're
14 doing costs for a service, I don't see if we -- let me
15 rephrase that. If we did not do that and take a look
16 at what a particular service is and how it's applied,
17 I'm not sure that we would come up with necessarily
18 the relevant information that that product manager
19 needs to price their service.

20 Q. That's what I'm getting at is, depending on
21 how the service is defined and what's defined as being
22 included in a service, that will influence the
23 ultimate outcome of your cost number that you supply
24 back to the product manager; isn't that correct?

25 A. Yes. I think by definition of a service,

1 that's correct.

2 Q. So just using perhaps an extreme example,
3 but to illustrate, if you define a service of exchange
4 access line, including all business, business and
5 residence switched access lines, you'll come up with a
6 very different cost than if you break that down into
7 smaller segments such as business access lines; isn't
8 that correct?

9 A. You're going to come up with different
10 costs if the drivers associated with that service are
11 different. You may have some common elements between
12 those services and we would use a consistent
13 methodology across those services. However, if the
14 service is different, the service is different, we
15 need to reflect those within the study.

16 Q. Do you think that it's appropriate for the
17 Commission to determine ultimately which services
18 should be included and lumped together for purposes of
19 doing a cost study in determining the appropriate cost
20 floors?

21 MR. SHAW: Objection to the extent it calls
22 for a legal conclusion on what the Commission's
23 jurisdiction is.

24 JUDGE CANFIELD: Okay. I will sustain it
25 to that extent.

1 MR. HARLOW: I'm not calling for a legal
2 conclusion.

3 Q. Just in your opinion as an economist.

4 A. I believe an economist would take a look at
5 it and say what's the market out there and what does
6 the public want and desire and need, and good
7 companies design their products to meet those customer
8 needs, and as a product manager, as the closest person
9 within an organization to identifying the services that
10 customers want, I believe that an appropriate -- an
11 appropriate response of a customer that is -- of a
12 company that is focused on customers is to have the
13 product managers design the services and lay out the
14 ground work of what's going to meet those customer
15 needs.

16 Q. So, for example, you might look at how the
17 competition distinguishes its services and markets its
18 services?

19 A. Again, that's a product management
20 decision. I would assume that's maybe one thing that
21 they look at. I think Mr. Rees, Ms. Owen and
22 Ms. Nownes talked about some of the market-based
23 things besides costs that they look at.

24 MR. HARLOW: Thank you very much. That's
25 all I have.

1 JUDGE CANFIELD: Thank you. And it's
2 Ms. Arnold that would have questions rather than
3 Mr. Kahn.

4 MR. KAHN: That's correct.

5 JUDGE CANFIELD: Now that I'm put on notice
6 of that let's go with that.

7

8 CROSS-EXAMINATION

9 BY MS. ARNOLD:

10 Q. I would like to follow up on your remarks
11 on definition of services. Who was the product
12 manager who provided you the information to define the
13 terminal loop and -- to define the terminal loop
14 service?

15 A. I believe I responded to that previously.
16 Mr. Christianson.

17 Q. Did Mr. Rees provide you with any
18 information?

19 A. Mr. Christianson worked and dealt with the
20 cost analysis, I should clarify that, and Mr. Rees
21 works in conjunction with Mr. Christianson, so I
22 guess there's ongoing communication between the two.

23 Q. In determining the customer needs, as part
24 of your product definition, would you consider that it
25 was important to determine who the customers were that

1 performed different types of service?

2 A. Again, you're getting beyond the scope of
3 from a product perspective. A lot of those things,
4 those product decisions are made by the product
5 managers and their representatives here. There's lots
6 of things I can speculate in terms of what should or
7 shouldn't, whatever, but the perspective I bring is
8 from the cost side and that we work with the product
9 managers to identify the costs, to mirror and match
10 the services as they've defined them.

11 Q. Would you briefly describe how you would
12 have performed your cost studies differently if the
13 product manager had informed you that private line
14 service was a different product than terminal loop
15 service?

16 A. I think our process would have been the
17 same. However, we would have used different inputs of
18 the same types as what we've got today, but we would
19 have used -- want to extract information that focused
20 around what was one versus what was the other. That
21 doesn't necessarily mean we would have come up with a
22 different cost number, but we would have pulled and
23 extracted information differently.

24 Q. Now, according to the RECALC, loop length
25 -- loop lengths are based on an average; is that

1 correct?

2 A. I guess I'm going to have to ask you what
3 you mean by average.

4 Q. That's what I was going to ask you. I
5 don't think you need to get it out again, but it says,
6 "customer location and therefore loop length varies by
7 customer type, business residence, private line, et
8 cetera. Therefore, to adequately study loops, loop
9 length must be measured so that an average loop can be
10 identified."

11 And my question for you is, what loops were
12 measured to come up with the average loop length that
13 you used in determining the NAC cost?

14 A. For the NAC costs it was again the private
15 line and the terminal loops in terms of taking a look
16 at that as an aggregate of our perspective private
17 line services. Those lengths and the distribution of
18 those lengths and the probability of distribution of
19 those lengths were considered to get to that average.
20 And I hope you understand what I mean when I say the
21 probability is distribution in that you tend to have
22 many loops closer in and then fewer going outward and
23 so you take essentially a weighted average of that and
24 as you're performing the costs you then weight them
25 based on that distribution.

1 Q. If you had determined in coming up with the
2 average loop length that, for example, all of the
3 loops used by private line customers were more than
4 five miles in length, and all the loops used by
5 terminal loop customers were less than five miles in
6 length, would that have been a factor in your
7 determination of how to define the two services?

8 A. Again, that service definition comes from
9 the product manager. And the direction that we
10 received is that we do not want to differentiate these
11 essentially the same services based on that type of
12 parameter.

13 Q. Now, you stated in answer, I think to
14 Mr. Trautman's question, that long-range incremental
15 cost methodology was forward looking; is that correct?

16 A. Yes.

17 Q. And you contrasted that to an embedded cost
18 method?

19 A. I'm not sure if I did or if Mr. Trautman
20 did, but you can contrast it to that.

21 Q. I thought you said that the company
22 sometimes used embedded cost studies for regulatory
23 purposes.

24 A. Yes, in that context, that's correct.

25 Q. Let me give you a hypothetical and then I

1 will ask the question based on the hypothetical. We
2 have heard testimony that terminal loop -- terminal
3 loops tariff has been in existence longer than the
4 memory of anyone here. Very ancient?

5 A. Probably before I was born.

6 Q. Private line service is a more recent
7 innovation. Now, here is the hypothetical. Let's
8 take a terminal loop customer that signed up in 1960
9 and the investment in materials and construction and
10 the engineering and the design and so forth was all
11 done in the early '60s and has since been amortized.
12 By contrast a private line service customer signs up
13 in 1993, and the investment costs and the recurring
14 costs as well based on your 1993 base costs pretty
15 much accurately reflect that customer's -- the cost
16 that customer is imposing on your system. How does
17 your cost methodology account for the different
18 vintages of those costs so that the terminal loop
19 customer with the amortized costs is treated fairly
20 with the private line customer whose costs are new and
21 not amortized?

22 MR. SHAW: Your Honor, I will object to the
23 question because it assumes a fact not in evidence
24 that private line service is a more recent product
25 offered by the telephone company than terminal loops.

1 I don't believe that's true, but in any event the
2 record is devoid of evidence on that.

3 JUDGE CANFIELD: Would the particular
4 service have to be a part of the hypothetical or could
5 it just be a more recent service?

6 MS. ARNOLD: Let's say a more recent
7 service. More recent customer signing up on a more
8 recent service.

9 JUDGE CANFIELD: I will allow it.

10 A. Now I forgot the question.

11 Q. How does your cost methodology reflect the
12 difference in the vintage of the costs between the
13 amortized costs and the more recently incurred costs?

14 A. I think one of the things you're doing is
15 confusing the philosophy of embedded costing versus a
16 forward-looking economic perspective. A forward-
17 looking economic perspective would say what would
18 anyone in this marketplace that was provisioning the
19 service do for adding new and additional service and
20 they would provide that equipment on a forward- looking
21 basis. As we're doing costs it's costs reflective of
22 adding and growing a service and what additional
23 resources does it take to provision additional
24 increments of service. And that's a standard economic
25 philosophy, so what you have in place and what you

1 provisioned before essentially becomes irrelevant as
2 you're looking at that forward-looking economic cost.

3 Q. Do you know when the private line service
4 tariff was first approved?

5 A. No, I do not.

6 Q. One last question. Going back to the
7 earlier questions that I asked you about the
8 definition of service, if the product manager had told
9 you that there was a significant difference between
10 terminal loop and private line, and they were
11 different services, would your analysis that's before
12 us here today still be valid or would you need to go
13 back and redo your cost study?

14 A. I guess I'm not sure when you say
15 significantly different, what's your perspective?
16 Significantly different from a market perspective?
17 Significantly different in how it's provisioned?

18 Q. Significantly different in that you
19 determined that instead of one service being defined
20 there were two separate services.

21 A. And your question is?

22 Q. Would your cost analysis that is in your
23 testimony still be valid or would you need to go back
24 and redo your cost analysis?

25 A. I would have to have, again, more specifics

1 on what do you mean by significantly different by that
2 service. I can envision where something from a market
3 perspective is viewed as significantly different and
4 for some reason the product manager wants to
5 differentiate in potentially two different markets or
6 something, and yet the cost basis may well be the
7 same.

8 Q. But you just don't know?

9 A. Until you've got the specifics of what you
10 mean, it's very difficult to answer that question on a
11 gullible basis. What you would do is you would sit
12 back and say, how is this question different than the
13 previous question that we answered and then you say,
14 do these facts -- are these facts still relevant for
15 that new decision and the answer may be no.

16 Q. Thank you.

17 JUDGE CANFIELD: Okay. Thank you, Ms.
18 Arnold.

19 With that it is close to five after 5:00
20 so we'll adjourn for the day, and any thoughts on
21 start time? We've got a little over two hours of
22 estimates going, so 9:30 start would be no problem
23 concluding so leave it at 9:30.

24 Okay. Let's start at 9:30 in the morning.

25 (Hearing adjourned at 5:10 p.m.)