

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3
4 NORTHWEST PAYPHONE ASSOCIATION,)
5 A Washington nonprofit)
6 Corporation, DIGITAL ACCESS)
7 COMMUNICATIONS CORP., NCS) Hearing No. UT-920174
8 TELEWORK COMMUNICATIONS CO.,)
9 PAYTEL NORTHWEST, INC., and) VOLUME V
10 PUBLIC COMMUNICATIONS OF) Pages 69 - 263
11 AMERICA,)
12 Complainants,)
13 vs.)
14 U. S. WEST COMMUNICATIONS, INC.,)
15 Respondent.)
16 -----)

17 A hearing in the above matter was held on
18 February 1, 1993, at 9:30 a.m., at 1300 South Evergreen
19 Park Drive S.W., Olympia, Washington, before
20 Administrative Law Judge ALICE L. HAENLE.

21 The parties were present as follows:

22 Sally Brown, Assistant Attorney General,
23 whose address is 1400 South Evergreen Park Drive S.W.,
24 Olympia, Washington 98504, on behalf of the Washington
25 Utilities and Transportation Commission Staff.

1 Brooks Harlow and Clyde MacIver, Attorneys
2 at Law, whose address is 601 Sixth Avenue, Suite 4400,
3 Seattle, Washington 98101, on behalf of Complainants.

4 Edward T. Shaw, Molly Hastings, and Bruce
5 Harrell, Attorneys at Law, whose address is 1600
6 Seventh Avenue, Suite 3204, Seattle, Washington 98191,
7 on behalf of U. S. West Communications, Inc.

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24 Donna M. Davis, CSR CM

25 Court Reporter

1	I N D E X				
2	WITNESS:	DIRECT	CROSS	REDIRECT	RECROSS EXAM
3	DAVID W. COULSON				
4		76	95		236
5			219		238
6					250
7					256
8					
9	EXHIBIT	MARKED	ADMITTED		
10	T-15		79		
11	T-16		79		
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1 P R O C E E D I N G S

2 THE COURT: The hearing will come to order.
3 This is a fifth day of hearing in Docket No. UT-9201_4.
4 This is the complaint of the Northwest Payphone
5 Association and several others against U. S. West.

6 The hearing is taking place on February 1,
7 1993, before the Commissioners. The purpose of the
8 hearing today as indicated in the notice of hearing is
9 to take testimony, direct and cross-examination of the
10 complaining parties.

11 I would like to take appearances just in
12 terms of giving your name and your client's name
13 assuming that your addresses are the same.

14 Mr. Harlow.

15 MR. HARLOW: Thank you, Judge. Good
16 morning, Commissioners. My name is Brooks Harlow. I'm
17 appearing on behalf of the Northwest Payphone
18 Association and the other Complainants in this
19 proceeding. And also with me in the room is Clyde
20 MacIver, one of my partners, who also represents the
21 Payphone Association.

22 THE COURT: Thank you.

23 Mr. Shaw.

24 MR. SHAW: Yes. Edward Shaw for U. S. West
25 Communications. Also with me in the room, attorneys

1 with U. S. West, are Molly Hastings and Bruce Harrell.

2 THE COURT: Miss Brown?

3 MS. BROWN: Sally G. Brown, Assistant
4 Attorney General appearing for the Commission staff.

5 THE COURT: Thank you. We discussed a
6 couple of matters before we went on the record. Let me
7 go over those, and I'll ask you if there are any
8 additional things we need to discuss.

9 There was a revised scheduling letter issued
10 January 22, 1993. It asked the parties to look at May
11 3 through 7 for cross-examination of Respondent and
12 Commission staff and gave some alternative dates as
13 well, if that was not acceptable. I believe that
14 everyone indicated that May 3 through 7 will be
15 acceptable.

16 Is that correct, Mr. Harlow?

17 MR. HARLOW: That's correct.

18 THE COURT: Mr. Shaw?

19 MR. SHAW: Yes.

20 THE COURT: Miss Brown?

21 MS. BROWN: Yes.

22 THE COURT: I appreciate that. I notice the
23 letter did not refer to previous staff testimony on
24 March 18 and cross-examination of direct testimony of
25 staff May 3 through 7. But that will be done as well

1 as the Respondent's testimony.

2 Finally, June 30 through July 2 is the date
3 for cross-examination of Complainant testimony. That
4 was a mistake in the January 22 letter.

5 Are there any other scheduling matters that
6 we need to discuss?

7 MR. HARLOW: I believe that covers it.

8 THE COURT: You folks indicated that you
9 were going to discuss among yourselves a revised
10 discovery schedule and were going to let us know before
11 the end of this set of hearings this week what that
12 revised discovery schedule would be. If you want to
13 report back what you discussed, that would be fine.

14 I have asked you all also to discuss
15 cross-examination of the confidential materials. We
16 won't have as much of a problem today with Mr. Coulson
17 since he will be going first. But Doctor Cornell does
18 have a number of confidential exhibits.

19 It's my understanding that the parties feel
20 we can do this without a closed session, and that would
21 definitely be my preference. So, please concentrate on
22 working around the confidential nature of the material
23 to the extent you can.

24 We pre-marked for identification the
25 supplemental testimony of Mr. Coulson as Exhibit T-20.

1 There has been a substitute page in Exhibit T-15.
2 Please substitute Page 22, and I noted also that
3 Exhibit C-19 is actually confidential testimony of Mr.
4 Coulson. So, mark that C-T-19 to indicate that it is
5 testimony.

6 MR. SHAW: Your Honor, I wonder if it would
7 be helpful if counsel could indicate on substitute Page
8 22 where the changes are from initial Page 22 of
9 Exhibit T-15.

10 MR. HARLOW: I would be happy to. There is
11 only one change, Line 14. You'll see the word "is" has
12 been struck through. That's the fourth word in the
13 sentence.

14 THE COURT: All right.

15 MR. HARLOW: It's simply a deletion of that
16 one word.

17 THE COURT: Is there anything else now we
18 need to discuss as preliminary matters before we go on
19 to take the direct and cross-examination of Mr.
20 Coulson?

21 Anything, Mr. Harlow?

22 MR. HARLOW: No.

23 THE COURT: Mr. Shaw?

24 MR. SHAW: No.

25 THE COURT: Ms. Brown?

1 MS. BROWN: No.

2 THE COURT: Your witness has assumed the
3 stand.

4

5 DAVID W. COULSON,
6 witness herein, being first duly
7 sworn, was examined and testified
8 as follows:

9

10 THE COURT: Thank you.

11 Mr. Harlow?

12

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

14 BY MR. HARLOW:

15 Q. Would you please state your name and address
16 for the record.

17 A. My name is David W. Coulson. My business
18 address is 802 Industry Drive, Seattle, Washington
19 98188.

20 Q. What is your occupation and by whom are you
21 employed?

22 A. I'm employed by Digital Access Corporation.
23 We are a competitive payphone provider. I'm its
24 vice-president and general manager.

25 Q. Is Digital Access one of the Complainants in

1 this proceeding?

2 A. Yes, we are.

3 Q. Do you have before you what's been marked in
4 this proceeding as Exhibit T-15?

5 A. Yes, I do.

6 Q. Do you also have before you Exhibits E-16,
7 17, 18, and Exhibit C-T-19 which are referred to in
8 Exhibit T-15?

9 A. Yes.

10 Q. Was Exhibit T-15 prepared pursuant to your
11 direction and supervision?

12 A. Yes, it was.

13 Q. Do you have your prefiled supplemental
14 testimony which has been marked as Exhibit T-20 in
15 front of you?

16 A. Yes, I do.

17 Q. Would you please tell us why you prepared
18 supplemental testimony in this proceeding?

19 A. Two things occurred which changed my
20 testimony. In the one instance when we refer to our
21 dollar per three-minute call, the economies of scale
22 have kicked in since that time, and we have now
23 increased it to four minutes for a dollar.

24 The other is in regards to competitive
25 practices. At the time that the original testimony was

1 given, we were not in real problems as far as
2 competitive practices.

3 Q. Excuse me. Competitive practices by whom?

4 A. Competitive practices from U. S. West.

5 Q. Thank you.

6 A. And since that time it has accelerated to a
7 point where we felt it necessary to amend the
8 testimony.

9 Q. If I were to ask you the questions contained
10 in Exhibit T-15 today, would your answers be the same
11 except for the changes noted in your supplemental
12 testimony?

13 A. Yes, they would.

14 Q. If I were to ask you the questions contained
15 in Exhibit T-20 today, would your answers be the same?

16 A. Yes, they would.

17 MR. HARLOW: At this time, your Honor, we
18 offer Exhibits T-15, E-16, 17, and 18, Exhibit C-T-19,
19 and Exhibit T-20 in evidence.

20 THE COURT: For clarification, counsel, I
21 asked you before we went on the record to discuss among
22 yourselves the reference in Mr. Coulson's prefiled
23 direct testimony to a demonstration that he intended to
24 give and indicated that all that would appear on the
25 record would be the words that were said, not the

1 demonstration itself. I asked you to discuss that with
2 other counsel. Have you done that?

3 MR. HARLOW: Yes, we have.

4 THE COURT: Have you any objection to the
5 entering of the testimony, Mr. Shaw?

6 MR. SHAW: No.

7 THE COURT: Ms. Brown?

8 MS. BROWN: No.

9 THE COURT: Exhibits T-15, 16, 17, 18,
10 C-T-19 and T-20 will be entered on the record.

11 (Received Exhibits T-15, 16, 17, 18, C-T-19,
12 and T-20)

13 THE COURT: You are responsible for your own
14 copies of the confidential materials. Please be sure
15 they are protected.

16 Does that complete your questions, Mr.
17 Harlow?

18 MR. HARLOW: No, it does not.

19 THE COURT: Go ahead.

20 BY MR. HARLOW:

21 Q. Would you please briefly summarize the
22 purpose of your prefiled testimony as contained in
23 Exhibits T-15 and T-20.

24 A. The Northwest Payphone Association realizes
25 that the Commission has a dual responsibility in this

1 arena. First and foremost is that of public policy
2 concerns. We share these concerns.

3 The other is the regulated company, U. S.
4 West, and their profitability. This is also important
5 to us, and we share those concerns. U. S. West must
6 remain profitable to attract the capital the same as we
7 do in our own businesses.

8 Our main purpose for this complaint is to
9 establish fairness in the marketplace, fairness in
10 pricing, fairness in competitive practices between
11 ourselves and U. S. West so that we can both go about
12 the purpose of doing our business and meet the goals of
13 both the Commission, U. S. West, and ourselves.

14 Q. Thank you, Mr. Coulson. Your prefiled
15 testimony refers to a demonstration. At this time I
16 would ask you to get up and come over to the pay
17 telephone that we have in the room and begin that
18 demonstration.

19 A. We'll be brief about this show and tell.

20 Q. The first thing I would like you to do is
21 describe for the record -- try to stand a little bit
22 off to the side, please -- describe for the record the
23 outward appearance of this pay telephone, first of
24 all identifying exactly what kind of equipment it is.

25 A. This product is produced by Protel

1 Corporation for the competitive payphone provider.
2 They also provide to the regulated companies in your
3 smaller independent companies their payphone products.
4 It can be programmed from the time it's initialized to
5 be either a regulated or a COCOT phone. The
6 capabilities of both exist within the housing.

7 The appearance of it is designed to be very
8 similar to what the consumer is used to seeing with the
9 U. S. West product that's out there. The
10 dissimilarities are very minor. The coins are entered
11 into the right-hand side versus the centralized
12 position and the coins are returned on the right-hand
13 side instead of on the left-hand side. This is because
14 when we first came into the market the only unregulated
15 case was that provided by GTE. And so consequently we
16 adopted their case because we could come to the market
17 with it quicker.

18 Q. Are there any differences on the signage on
19 your phone compared to a U. S. West phone?

20 A. Only in appearance. The information is all
21 the same, plus we do take pride in advertising our four
22 minute for a dollar call. But all of the other
23 regulatory requirements and dialing requirements are
24 posted similar to that which is provided on the
25 regulated phones.

1 Q. What are these two devices next to the
2 phone?

3 A. This we brought along because the phone
4 cannot function without dial tone and battery from the
5 central office. This device simulates that battery and
6 signalling. We use actually no central office software
7 in addition to make our call. We use a central office
8 purely for switching.

9 Q. What's this other telephone here on the
10 table?

11 A. This we will use as an answer phone. It's a
12 phone that we will demonstrate the call through just to
13 show that it actually will go through, but we are not
14 connected to a central office.

15 Q. Please describe for the record what's on the
16 bottom. I call it the bottom half, but it's more like
17 the bottom third or bottom one-quarter of the phone?

18 A. This is the cash vault area.

19 Q. Can you open it up for us?

20 A. This is the area where our coin is
21 deposited. This is a secure area. Again, we use the
22 same locking devices and all that the regulateds use.
23 This is the heart of our business. This is the cash
24 box. It's a simple matter.

25 In the normal process as you can see, this

1 box can be sealed. There is a lead seal that goes in
2 here. When the box is put into the phone, it allows
3 this opening, and it will open up the access where the
4 coins can drop into the box.

5 As it comes out, this is released, and the
6 box is locked. It has to be removed so that it can be
7 reset again.

8 Q. What's the purpose of that?

9 A. The purpose of this is because the coin
10 cannot be reached by the collector. It is brought into
11 the accounting area sealed and protected so that there
12 is no opportunity for loss of coins, we call it,
13 shrinkage in the retail.

14 COMMISSIONER CASAD: The collector collects
15 each box? He physically takes a whole bunch of boxes
16 in, and he has replacement boxes with him?

17 THE WITNESS: Yes.

18 COMMISSIONER CASAD: Thank you.

19 THE WITNESS: He will have a sealed empty
20 box to replace.

21 BY MR. HARLOW:

22 Q. Are you describing your operations or U. S.
23 West's operations?

24 A. Not at all. There is one of the big
25 differences. Because of the capability of the phone,

1 need to actually count the coins?

2 THE WITNESS: We count every box
3 independently.

4 BY MR. HARLOW:

5 Q. The thing I wanted to clarify is does
6 Digital seal the box?

7 A. No. We find it unnecessary to go through
8 that extra labor.

9 Q. Does U. S. West do that?

10 A. Yes, they do, to the best of my knowledge.

11 Q. You can put the bottom part back together
12 and we can move on to the top part of the phone.

13 How many locks do you have on the bottom
14 part of the phone?

15 A. There is only actually one lock. However,
16 there are four major and various locking bars that hold
17 this in place.

18 Q. How does that compare with the U. S. West
19 phone?

20 A. Very similar.

21 Q. Now if you would, please, describe generally
22 the top part of the phone and open it up as you do so.

23 A. This again is very similar to the regulated
24 phones in the way that it comes apart in two pieces.

25 This is the service area. This is the area that

1 contains the computerized section of the phone itself
2 and the coin counting mechanisms, coin collector relays
3 and such. This is what we affectionately refer to in
4 our industry as the operator in the box.

5 Q. Please describe again so the record can pick
6 it up, what is this on the left side of the phone as
7 you're facing it?

8 A. This is the electronics that virtually does
9 the functions of the central office with the exception
10 of the actual switching.

11 Q. What does your phone need from the central
12 office in order to operate?

13 A. Dial tone and battery.

14 Q. Does your phone need any other source of
15 electrical power besides the central office?

16 A. When this type of equipment first came to
17 market, that was the case. We needed external
18 electricity. But, again, our concerns for the public
19 safety and all, we wanted the phone to be functional
20 even in a power failure. So, now, the only power
21 requirements that we have are that supplied by the
22 telephone line itself.

23 Q. If you would please reassemble it unless
24 there are any questions about this. I would like you
25 to demonstrate what the electronics are capable of

1 doing.

2 THE COURT: Commissioner, did you have a
3 question?

4 COMMISSIONER PARDINI: How does the phone
5 function during an electrical outage? And for how long
6 will it function?

7 THE WITNESS: As long as the central office,
8 the telephone line itself, is intact.

9 COMMISSIONER PARDINI: It draws its power
10 through the central --

11 THE WITNESS: Directly from the central
12 office battery, yes, sir.

13 THE COURT: Will you have the unit there so
14 if Mr. Shaw or Ms. Brown has questions about it it can
15 be used?

16 THE WITNESS: Certainly.

17 MR. HARLOW: We'll leave it here all day.

18 BY MR. HARLOW:

19 Q. Do you have your quarters ready?

20 A. We're ready.

21 Q. The first thing I would like you to
22 demonstrate is how a local call would work by first
23 depositing a quarter and dialing a number.

24 A. If, in fact, it's done in this manner, then
25 the call is processed the same way as on the regulated

1 phones.

2 Q. For the record, you dialed what kind of a
3 call there?

4 A. That was a local call.

5 Now, in the event that I failed to put a
6 coin in the phone, --

7 THE TELEPHONE: "Please deposit twenty-five
8 cents."

9 THE WITNESS: That is the announcement.
10 There we have a big difference. This happens on the
11 regulated side.

12 BY MR. HARLOW:

13 Q. By "regulated," what do you mean?

14 A. U. S. West.

15 THE TELEPHONE: "Please deposit twenty-five
16 cents."

17 MR. HARLOW: I would like the record to
18 reflect that on the record.

19 THE COURT: Be sure to ask them if you don't
20 understand what it says.

21 THE WITNESS: With a U. S. West phone, if I
22 failed to deposit the coin I would get an error message
23 from the central office that would tell me it's
24 necessary to deposit a quarter.

25 THE TELEPHONE: "Please hang up, deposit a

1 quarter, and dial the number again."

2 THE WITNESS: We like to think we're more
3 user friendly in this regard. We do all of this
4 negotiating before the call is processed.

5 BY MR. HARLOW:

6 Q. Just for clarification, that voice that said
7 "Please deposit twenty-five cents," does that come from
8 the central office?

9 A. That's our operator in the box.

10 Q. Thank you. Could you please demonstrate by
11 dialing a long distance number sequence how that works
12 for the record.

13 THE TELEPHONE: "Please deposit one dollar
14 for four minutes."

15 THE WITNESS: I just placed a call to Oregon
16 where it was one dollar for four minutes.

17 THE TELEPHONE: "Please deposit one dollar."

18 THE WITNESS: I'm going to short change her.

19 BY MR. HARLOW:

20 Q. By that you mean --

21 A. -- I put in fifty cents.

22 THE TELEPHONE: "Please deposit fifty cents.
23 Thank you."

24 THE WITNESS: We're patient if people have
25 troubling struggling with the coin.

1 BY MR. HARLOW:

2 Q. What will happen if the phone is answered as
3 I have just picked up the phone?

4 A. It should go into a normal conversation,
5 which it definitely is. We may get some feedback here.
6 We don't want to squeal in everybody's ears.

7 Q. What happens after you hang up the phone?

8 A. It has collected the coins.

9 Q. Thank you. Would you please demonstrate
10 what happens if the call is not answered, long distance
11 call.

12 A. In the event of an unanswered call -- we'll
13 place a call to the same number again. These numbers
14 that I'm dialing, the intelligence in the phone --

15 COMMISSIONER PARDINI: When you're speaking,
16 would you turn off that dial tone, please?

17 THE WITNESS: Certainly.

18 To help to understand this, regardless of
19 the number I dial, I'll still ring the same phone.
20 That's not the way the seal works. But for here the
21 intelligence in the phone takes my dialing instructions
22 and translates them over to one single number. No
23 matter what I dial, it will transfer it over and dial
24 the number that the simulator is programmed to receive.
25 This is the way that we're getting through this.

1 If I were to place a call within the LATA --

2 THE TELEPHONE: "Please deposit one dollar
3 for four minutes."

4 THE WITNESS: Again, the same thing would
5 apply.

6 THE TELEPHONE: "Thank you."

7 BY MR. HARLOW:

8 Q. What will happen if I don't answer the
9 phone?

10 A. In the event of an unanswered call?

11 Q. The phone is ringing and you're hanging it
12 up.

13 A. When I hang up, contrary to some of the
14 advertisements, we do return coins.

15 Q. And how does the phone know whether the call
16 has been answered or not?

17 A. We have to go through quite an internal
18 diagnostic to determine what's happening on the phone
19 line. We have to listen for the ring-back that you
20 heard. And we have to quietly listen to the lines and
21 determine when the party actually answers and starts to
22 talk.

23 At that time we make the decision that, yes,
24 this is a completed call, and we'll set it up for
25 collection. Frequently, because of various different

1 signaling in the network, we may be confused -- I say
2 frequently -- rarely. But it does happen where we will
3 collect coins inadvertently because we do not have true
4 line side answer supervision. You hear this term quite
5 a bit. We do not have the same answer/no answer
6 signaling that U. S. West uses.

7 Q. The phone asked for a deposit of a dollar
8 for four minutes. What happens at the end of four
9 minutes on a phone such as this?

10 A. Thirty seconds before the four minutes is
11 up, it will request an additional deposit for an
12 additional four minutes. In the event that deposit is
13 not made, it will disconnect.

14 Q. Is there any way that you can avoid having
15 that message come on in the middle of your call?

16 A. People become quite used to it, and they
17 will pre-pay. You can put in \$2 initially, and it will
18 give you eight minutes. You can put in \$3, and it will
19 give you twelve minutes.

20 Q. How does this compare with a U. S. West
21 phone? How does it work?

22 A. With the payphone in U. S. West, they will
23 initially place the call and periodically come back and
24 request more coinage. I don't know for certain what
25 this period is. I believe it's every two minutes.

1 This brings about the opportunity for the
2 operator to come in and ask for more coinage and find
3 the customer has terminated and left and they have no
4 opportunity to collect it. It's what we refer to as
5 walk-away fraud.

6 Even though we would like to do this, we
7 can't afford to because we're paying for that time no
8 matter what happens.

9 We designed this -- and, again, some of the
10 complaints that come up, "My call was cut off," the
11 majority of these are generated because the person
12 failed to put in additional coin.

13 Q. Just briefly before we conclude the
14 demonstration, I would like you to describe if there
15 are any numbers other than a traditional seven digit or
16 long distance that can be dialed on this phone and what
17 can be done.

18 A. In order to help the end user as he migrates
19 from one area to another, different telephone dialing
20 patterns, we would like to make the phone again as user
21 friendly as possible.

22 211 throughout the country is pretty much
23 the repair and service refund numbers. We take 211 and
24 route it to the appropriate number to respond to those
25 needs.

1 Q. Does a coin have to be deposited to make
2 that call?

3 A. There is no deposit required for that call.

4 In addition, a lot of the area supports 411
5 for local information. These people who come into this
6 area where we have to dial an area code 206 plus
7 555-1212 get horribly confused. So, we programmed the
8 phone over so if they are used to 411, that's fine.

9 THE TELEPHONE: "Please deposit 25 cents."

10 THE WITNESS: That call will be routed to
11 information. And we do all the appropriate area code
12 and everything else that's necessary. This avoids a
13 lot of confusion.

14 We also found in our industry that people
15 are continually coming to our phones. They will come
16 into our repair number and say their home phone is
17 broken. This does give us a complication. We have
18 phones in three states, and it's a monumental chore to
19 try to find out how they get ahold of U. S. West repair
20 locally.

21 We asked U. S. West to give us a universal
22 residential repair number so we could refer these
23 people to them. And they were unable to do that for
24 us. So, we have gone to the, again, common 611.

25 If someone calls us now and says, "I want my

1 home phone repaired," we'll tell them, "Please hang up
2 and dial 611." We programmed 611 to reach the local U.
3 S. West residential repair.

4 Hopefully they don't charge me six cents for
5 that call. I don't know for sure.

6 BY MR. HARLOW:

7 Q. Do you charge 25 cents for that call?

8 A. No, we do not.

9 MR. HARLOW: Thank you, Mr. Coulson. I
10 believe that's all we have. Certainly he can take
11 questions now on cross.

12 THE WITNESS: I hope it was helpful.

13 MR. HARLOW: At this point the witness is
14 available for cross-examination.

15 THE COURT: All right. Mr. Shaw?

16 MR. SHAW: Thank you, your Honor.

17

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

19 BY MR. SHAW:

20 Q. Good morning, Mr. Coulson.

21 A. Good morning, Mr. Shaw.

22 Q. Mr. Coulson, how long, to your knowledge,
23 had U. S. West and its predecessor companies been
24 providing public telephone coin service in the state of
25 Washington?

1 A. I don't know the date that they started. I
2 do know they have been available all through my
3 extensive lifetime, and I'm 62 years old.

4 Q. So, for as long as you can remember, public
5 phone service has been available from local exchange
6 companies in the state of Washington?

7 A. That's correct.

8 Q. And earlier in your demonstration, you were
9 referring to your operation versus the regulated
10 operation or regulated sets. And by that I take it you
11 mean generally public phone service provided by local
12 exchange companies as they have historically done?

13 A. That's the common verbage we use, yes.

14 Q. Do you understand that local exchange
15 companies in the state of Washington are just that?
16 That they provide local exchange service, among other
17 things?

18 A. Yes, sir.

19 Q. Under full regulation by this Commission
20 historically?

21 A. Yes, sir.

22 Q. And that this Commission has always looked
23 at the provision of public phone service as part of the
24 obligation to provide local exchange service?

25 MR. HARLOW: Judge, this line of questioning

1 was initially premised with Mr. Coulson's
2 understanding. Mr. Shaw is no longer prefacing his
3 questions with that, and he seems to be asking for a
4 legal conclusion.

5 The further he gets into this, the less I
6 see the relevance of the witness's understanding of the
7 Commission's legal regulatory duties and obligations
8 and actions. So, I object to the form of the question.

9 THE COURT: Mr. Shaw?

10 MR. SHAW: I don't understand the objection.
11 I'm asking a straight factual question. If he doesn't
12 know the answer, he can say so.

13 THE COURT: I think that's good. If you
14 don't know, say.

15 THE WITNESS: Could you restate that for me,
16 Mr. Shaw?

17 BY MR. SHAW:

18 Q. Is it your understanding that this
19 Commission has long regulated local exchange companies'
20 provision of public telephone service as part of their
21 obligation to provide local exchange service?

22 A. I would say yes.

23 Q. And years ago fewer people had home phones
24 than they do today. Isn't that correct?

25 A. It's a fair assumption.

1 Q. From your personal experience, you know that
2 to be true, that a phone was almost considered a luxury
3 years ago?

4 A. We're going back aways. Yes.

5 Q. And you could always find a public pay
6 telephone to place a call from, could you not, a local
7 exchange call?

8 A. I have had times when I was desperate to
9 find one and was unable to. I wouldn't say always.

10 Q. Pay telephones were available in the service
11 territory of the local exchange company that provided
12 local exchange service in that area?

13 A. Yes.

14 Q. And you do understand, being in this
15 business, that this Commission has regulated the rates
16 charged from public telephone service in the state of
17 Washington?

18 A. Yes.

19 Q. Historically. Do you understand that the
20 current rate for coin telephone service, a quarter a
21 call for local service, has been set by this Commission
22 in a proceeding with U. S. West?

23 A. Yes, I'm aware.

24 Q. How many times has this Commission agreed to
25 change the coin rate, if you know, for U. S. West in

1 the state of Washington?

2 A. I have no knowledge of that.

3 Q. Would you agree that it's been very few,
4 from a dime to fifteen to a quarter?

5 MR. HARLOW: I'm going to object. There is
6 no foundation the witness has experience in this area.

7 THE COURT: If the witness knows he can
8 answer. If he doesn't he can so indicate.

9 THE WITNESS: I can only guess.

10 THE COURT: Mr. Shaw?

11 BY MR. SHAW:

12 Q. How long have you lived in the state of
13 Washington, Mr. Coulson?

14 A. Fourteen years.

15 Q. How long has coin telephone service been a
16 quarter provided by local exchange companies in the
17 state of Washington?

18 A. Throughout the time I have been here except
19 for some independents who only charged a dime.

20 Q. When a local exchange company charges a
21 customer a quarter to place a local call, that company
22 is providing that customer a local telephone call;
23 correct?

24 A. That is correct.

25 Q. In that sense, the service being provided is

1 no different if the customer has his own phone or uses
2 a payphone provided by the local exchange company;
3 correct?

4 A. That's correct.

5 Q. Now, the demonstration that you gave this
6 morning provides exactly the same service to the end
7 user customer for local calls, does it not?

8 A. The end result is the same. The methodology
9 is slightly different.

10 Q. A customer walks up to a payphone, whether
11 provided by you or the local exchange company, puts in
12 a quarter, gets a dial tone, places the call; correct?

13 A. Correct.

14 Q. And there is absolutely no difference in
15 that function between the local exchange company and
16 your phone?

17 MR. HARLOW: Objection.

18 THE WITNESS: Not in that specific
19 transaction, no.

20 MR. HARLOW: This question was already
21 answered.

22 THE COURT: I think it was a slightly
23 different question, Mr. Harlow. I'll let the answer
24 stand.

25 BY MR. SHAW:

1 Q. You are the subscriber -- when I say "you," I
2 mean your company, Digital -- are the subscriber of U.
3 S. West when you obtain a public access line from U. S.
4 West, are you not?

5 A. That is correct.

6 Q. Your end user customer who walks up to your
7 phone and puts in a quarter is not a subscriber of U.
8 S. West, is he?

9 A. Not through that payphone. He may be a
10 subscriber on his own right.

11 Q. And in that payphone transaction, there is
12 no transaction between U. S. West and that ultimate
13 customer, is there?

14 MR. HARLOW: Are you talking about a local
15 call, Mr. Shaw, still?

16 MR. SHAW: Yes.

17 MR. HARLOW: Thank you.

18 THE WITNESS: By "transaction," you mean
19 deposit and receipt of coin?

20 BY MR. SHAW:

21 Q. Yes.

22 A. In that regard we are the intermediary
23 between the end user and the exchange company.

24 Q. And when you subscribe to U. S. West public
25 access service, you pay the tariffed rate that's on

1 file with this Commission for that line for each
2 payphone; right?

3 A. That's correct.

4 Q. And then you turn around and you resell that
5 line to general members of the public on a call-by-call
6 basis for a quarter, do you not?

7 MR. HARLOW: I'm going to object to the
8 extent the question calls for a legal conclusion
9 regarding the definition of resale.

10 THE COURT: Mr. Shaw?

11 MR. SHAW: Again, your Honor, it's a plain
12 English word. I didn't couch it in terms of any kind
13 of a legal connotation. I'm simply asking the witness
14 a factual question.

15 THE COURT: I'll allow the witness to answer
16 understanding it's not meant to be a legal conclusion.

17 Go ahead, sir.

18 THE WITNESS: The term "resale" brings in a
19 legal conclusion because it's used legally as well as
20 in an actual financial transaction.

21 We both are involved in the resale of that
22 service. I collect a quarter and pay 24 percent of it
23 to U. S. West.

24 BY MR. SHAW:

25 Q. You state that you collect a quarter and pay

1 24 percent of it to U. S. West. The tariff of U. S.
2 West for a public access line is not ba_ed upon a
3 percentage of the coin box, is it?

4 A. Indirectly it is. I'm referring to the
5 six-cent metered charge that I pay for that call. It
6 comes off the top of the quarter.

7 Q. The structure of U. S. West public access
8 line service is a flat rate for up to 300 calls and a
9 message rate for messages exceeding 300 calls; is that
10 correct?

11 A. That's correct.

12 Q. And for the first 300 calls per month made
13 from that access line then it's not a quarter of a
14 quarter, is it?

15 A. In that particular case, no. It would be
16 similar to information is free for the first four
17 calls, but it costs a quarter thereafter.

18 Q. You remit to U. S. West the same price for
19 the first 300 calls regardless of the usage on that
20 line; correct?

21 A. Yes. That's absorbed in the base rate,
22 whether it's one call that's placed in a month or 300
23 calls are placed in a month.

24 Q. Do you consider that you hold yourself out
25 to the general public, Mr. Coulson, when you provide a

1 pay telephone and invite members of the public to place
2 local calls on it for a quarter?

3 A. Yes, we do.

4 MR. HARLOW: I'm going to object. The
5 question is vague. I'm not sure what he holds out to
6 the public to do what?

7 THE COURT: I'm going to overrule the
8 objection, Mr. Harlow.

9 Go ahead, Mr. Shaw.

10 MR. SHAW: Thank you.

11 BY MR. SHAW:

12 Q. Let's backtrack a little bit and talk about
13 the history of your industry in this state.

14 As I understand your direct testimony,
15 you're a fairly recent entrant into providing local pay
16 telephone service to the public. You started in this
17 business in 1988; is that correct?

18 A. When you say "you," are you referring to me
19 personally or Digital Access, sir?

20 Q. You and Digital Access, your company.

21 A. The company started at that time, yes.

22 Q. Were you in the business of providing public
23 payphone service any earlier than that?

24 A. Yes, I was.

25 Q. When did you first provide public pay

1 telephone service in the state of Washington?

2 A. Soon after it became deregulated in 1985.

3 Q. And when you say "soon after it became
4 deregulated," are you referring to the action of the
5 FCC allowing the interconnection of pay telephones
6 other than owned by a traditional telephone company to
7 the interstate network?

8 A. Excuse me. No. That ruling only allowed
9 for interstate traffic, which didn't make sense. So,
10 we waited until such time as the Commission established
11 the rules and allowed intrastate calling and local
12 calling.

13 Q. Is it your testimony that this Commission
14 has ever issued an order providing for non-local
15 exchange company public pay telephone service for
16 intrastate service in the state of Washington?

17 A. That's my understanding, yes.

18 Q. Are you familiar with the extensive
19 Commission rules in the Washington Administrative Code
20 adopted by this Commission over the last recent years,
21 dealing with pay telephone service?

22 A. Yes. We have been involved in that
23 rulemaking.

24 Q. That rulemaking has been critical to the
25 structure of your business, I take it, and you followed

1 it very closely?

2 A. To the best of our ability, yes.

3 Q. And you through your association or your
4 counsel have had input into that rulemaking procedure
5 of the Commission?

6 A. Wherever possible.

7 Q. And the Commission has published those rules
8 for public comment, and you have taken the opportunity
9 to put on the record your comment about the
10 Commission's proposed rules?

11 A. I have not commented directly, although
12 indirectly I have had input.

13 Q. Through your Northwest Payphone Association
14 or some other organization?

15 A. That's correct.

16 Q. Do you recall when this Commission first
17 adopted its rules providing for the interconnection of
18 non-local exchange company payphones to the network in
19 the state of Washington?

20 A. I'm sorry. I'm unclear on that question.
21 Could you please restate it for me, Mr. Shaw?

22 Q. Yes.

23 Do you recall the date, the time, the year
24 when this Commission first adopted its rules dealing
25 with the interconnection of non-electric payphones to

1 the network in the state of Washington?

2 A. I couldn't be specific to the date and time.
3 It was in middle to late 1985.

4 Q. You're referring to when this Commission
5 first dealt with rules dealing with interconnection?

6 A. That is correct.

7 Q. And the Commission's rules say, do they not,
8 Mr. Coulson, that local exchange companies regulated by
9 this Commission shall allow interconnection of properly
10 registered equipment for interstate calling?

11 MR. HARLOW: Mr. Shaw, first of all, could
12 you please refer to and cite the rule for us?
13 Secondly, I assume you're still asking the witness's
14 understanding rather than a legal conclusion?

15 MR. SHAW: Yes, I am.

16 BY MR. SHAW:

17 Q. Do you need a rule cite, Mr. Coulson?

18 A. I would rather have it in front of me. But
19 that's all right.

20 Q. Did you review the rules of this Commission
21 in --

22 A. Yes, I have.

23 Q. Did you review them in preparation for
24 filing your testimony in this case?

25 A. Yes.

1 THE COURT: Since you have the documents in
2 front of you, Mr. Shaw, perhaps you would allow the
3 witness to look at them. You may approach the witness.

4 MR. SHAW: Certainly.

5 BY MR. SHAW:

6 Q. Handing you a book, do you remember WAC
7 480-120-137 entitled CUSTOMER OWNED PAY
8 TELEPHONES-INTERSTATE?

9 A. Yes.

10 Q. And do you remember and recall that that WAC
11 requires a regulated local exchange company to allow
12 interconnection of payphones for interstate calls?

13 MR. HARLOW: I'm going to object. I don't
14 see what the point of this is. The rule speaks for
15 itself. If we're just reading rules, it seems to me
16 the Commission can take official notice of that.

17 THE COURT: He is entitled to give
18 foundation for future questions. I'm going to overrule
19 your objection, Mr. Harlow.

20 Do you see that, sir?

21 THE WITNESS: It is the term "require" that
22 is bothering me because to date in the state of
23 Washington we have local exchange companies who do not
24 have PAL tariffs filed.

25 So, if it was a requirement, all of the

1 regulated companies would offer PAL tariffs, and this
2 is not the case.

3 BY MR. SHAW:

4 Q. That's why I asked the question related to
5 the interstate network, Mr. Coulson. Does the rule
6 without belaboring it provide that companies shall
7 allow company-owned payphones?

8 A. Interstate was a requirement by the FCC,
9 yes.

10 Q. Does that rule, 480-120-128, use the word
11 "may" instead of "shall" in regard to the intrastate
12 network?

13 A. That is correct, yes.

14 Q. And then when you have testified that this
15 Commission permitted non-LEC pay telephones in 1985,
16 are those the rules you have reference to?

17 A. That would be correct, yes.

18 Q. And you would agree that this Commission has
19 never to date by rule or otherwise required local
20 exchange companies in the state of Washington to
21 inter-connect for intrastate service public payphones
22 operated by others?

23 MR. HARLOW: Again, I object unless it's
24 limited to the witness's understanding rather than a
25 legal conclusion.

1 BY MR. SHAW:

2 Q. Is that your understanding?

3 A. Yes, it is, Mr. Shaw.

4 Q. And, in fact, local exchange companies other
5 than U. S. West as of today do not offer public access
6 lines to non-LEC-owned payphones for intrastate
7 service, do they?

8 A. There are those who still have not filed a
9 tariff, yes.

10 Q. And your testimony isn't that those
11 companies are in some sort of violation of this
12 Commission's rules, is it?

13 A. No.

14 Q. In fact, other local exchange companies that
15 do provide PAL line service intrastate in the state of
16 Washington charge different rates and have different
17 rate structures than U. S. West. Isn't that correct?

18 A. That is correct.

19 Q. And your company subscribes to PAL lines
20 from other companies other than U. S. West?

21 A. Yes, we do.

22 Q. In all cases, those other companies through
23 their rate structure or rate levels charge more than U.
24 S. West?

25 A. That cannot be answered as a yes or no, Mr.

1 Shaw, because there are instances because of the flat
2 rate nature of the competitors of U. S. West, such as
3 those that I have with GTE, their basic rate may be
4 more than yours, but that's all I pay. And in the more
5 productive locations with the meter applied, I can pay
6 twice what I do with the GTE flat rate.

7 Q. GTE charges a high flat rate PAL line --
8 when I say "high," higher than U. S. West's flat rate,
9 for the first 300 calls; is that correct? Is that your
10 testimony?

11 A. Yes.

12 Q. And you recall that those same rules we were
13 referring to earlier -- that is, WAC 480-12-137 --
14 require your Company's equipment to be connected to the
15 network for intrastate services through the PAL lines
16 if offered by the local company?

17 A. That is correct.

18 Q. And those rules as adopted by the Commission
19 also require one access line per telephone; correct?

20 A. That is correct.

21 Q. Are you in this complaint asking this
22 Commission to change its rules adopted in the
23 Washington Administrative Code dealing with coin
24 telephone service?

25 A. In our complaint, Mr. Shaw, we are not

1 specific as to requirements. We are here to ask for a
2 level playing field, if your Honor please. We feel
3 that it is the Commission's position to take specific
4 action. We have really not requested any specificity
5 other than fairness.

6 Q. Are you asking this Commission to change its
7 rules so as to require local exchange companies to
8 offer public access lines for intrastate service?

9 A. No, sir, that's not our intent.

10 Q. So, you have no quarrel with the rule if it
11 leaves it up to the local exchange company whether they
12 even offer interconnection for your phones. Is that
13 correct?

14 MR. HARLOW: I'm going to object. I think
15 that mischaracterizes his testimony.

16 THE COURT: If so, the witness is certainly
17 welcome to say so, sir.

18 THE WITNESS: I have talked to some of the
19 CEOs of the smaller local exchange companies, the
20 independents, if you would. Most of their markets are
21 not really a highly competitive marketplace. They have
22 chosen not to file a tariff because it would be more of
23 a burden on them administratively than the market would
24 really warrant. And so they have elected because of
25 their own business decisions not to file a tariff. We

1 honor that and go about our business.

2 BY MR. SHAW:

3 Q. Have you made request of local exchange
4 companies other than U. S. West in the state of
5 Washington for PAL service and been refused?

6 A. Yes, I have.

7 Q. What companies are those?

8 A. The McDaniels Telephone Company and Dayton.

9 Q. When you say "Dayton," you mean the --

10 A. Toledo. I'm sorry. I misspoke.

11 Q. Any others?

12 A. There is one other. Yelm, yes.

13 Q. If it was it your understanding that the
14 Commission's rules do not require any local telephone
15 company to offer PAL line service for intrastate
16 service, would you have any objection then if U. S.
17 West exercised its option and withdrew its tariff for
18 its service territory?

19 A. The Northwest Payphone Association currently
20 has between \$10 million and \$15 million capital
21 investment out there on which we have about a five-year
22 buy-back to get our capital back again.

23 Yes, we would object if all of a sudden we
24 were disallowed to continue business.

25 Q. So then you do object to the Commission's

1 current rule that permits but does not require PAL line
2 service in the stnte of Washington for intrastate
3 service; is that correct?

4 A. That is not what I said. I said that --

5 MR. HARLOW: Mr. Coulson, let me state my
6 objection.

7 I object to these questions. Mr. Shaw is
8 clearly assuming that having offered the PAL tariff U.
9 S. West now has an "option" to withdraw it. I think
10 that's a legal conclusion that's raised as an issue by
11 this case. U. S. West will certainly be hotly
12 contested by the Complainants.

13 So phrase questions around that assumption
14 because U. S. West hasn't decided to withdraw the
15 tariff. It is not fair to the witness. That's a legal
16 question that has not been determined.

17 THE COURT: Mr. Shaw?

18 MR. SHAW: Your Honor, we have a situation
19 here which we're entitled to explore. This Commission
20 has adopted very detailed rules in the area of public
21 pay telephone service with a lot of input from
22 everybody in the industry, local exchange companies and
23 otherwise.

24 And if this Complainant, these Complainants,
25 have a problem with the Commission's rules, which have

1 the force of law or legislation of this Commission, it
2 is inappropriate to bring an effort to change those
3 rules by filing a complaint against U. S. West.

4 So, I think we're entirely entitled to
5 explore whether this complaint is against U. S. West.
6 Or is the complaint against the Commission's rules?
7 That is the reason for this line of cross.

8 THE COURT: Mr. Harlow?

9 MR. HARLOW: The question would be less
10 objectionable if it were framed in terms of a
11 hypothetical. But I wouldn't withdraw my objection
12 because I think it's very speculative to assume even
13 hypothetically that U. S. West is going to withdraw its
14 PAL tariff or would be allowed to do so by this
15 Commission.

16 THE COURT: I'm going to overrule this
17 objection, Mr. Harlow. If this may be one of U. S.
18 West's methods of defending against this complaint,
19 this would be the time for him to question your
20 witnesses about that.

21 Now, you'll have the opportunity on brief to
22 argue whether or not such a course of action is
23 appropriate or not. But he won't get another chance to
24 ask this witness that kind of question. So, I will
25 allow the question as part of U. S. West's approach.

1 Go ahead, sir.

2 MR. SHAW: Thank you.

3 BY MR. SHAW:

4 Q. I can't recall now whether you have a
5 question in front of you, Mr. Coulson. Let me ask you
6 another one.

7 THE COURT: I don't believe he had finished
8 answering that question, Mr. Shaw. I believe counsel
9 had asked him not to finish answering while the
10 objection was being made.

11 BY MR. SHAW:

12 Q. Do you recall the question, Mr. Coulson?

13 A. As I understand it, you were asking if we
14 object to the rules.

15 No, in fact, we do not, nor does our
16 complaint address the rules. There are certain aspects
17 of the rules that we would like to bring back to the
18 Commission and the Staff for reconsideration after the
19 time has passed where things have matured in the
20 marketplace. Perhaps rules that were originally felt
21 to be necessary no longer are necessary, and there are
22 areas that we would like reconsideration on.

23 Q. Do you recall that the rules require your
24 service to be connected with the network only through
25 public access lines in accordance with the approved

1 tariffs offered by the local exchange companies?

2 A. That's my understanding, yes.

3 Q. And the rules further provide that local
4 exchange company pay telephones are not subject to this
5 requirement?

6 A. That's my understanding.

7 Q. As part of your complaint, have you
8 complained in your prefiled testimony about the
9 requirement of these rules that there be one public
10 access line per phone?

11 A. We feel that that is a restriction that is
12 not really appropriate. It's one of those issues that
13 we would like to bring back for reconsideration. There
14 are installations where accessibility is important but
15 the volume of traffic does not warrant one line per
16 phone. And we would like to bring in economies of
17 scale.

18 Q. By that answer I take it you're not asking
19 in this complaint for the Commission to change its rule
20 that requires one PAL line per phone?

21 MR. HARLOW: Mr. Shaw, I think that our
22 complaint is fairly clear that we are not seeking that
23 for the specific relief requested. I think the witness
24 has indicated and already answered the question that
25 the long-term goal of the association would be to seek

1 some rule changes. But this complaint is specifically
2 addressed to the practices of U. S. West. And I don't
3 want there to be any misunderstanding about that.

4 THE COURT: What is the basis of your
5 objection specifically, Mr. Harlow?

6 MR. HARLOW: The basis of the objection is
7 that the question has been asked and answered, and the
8 relief sought is already set forth in the complaint.

9 THE COURT: I will overrule the objection
10 and direct the witness to answer, sir.

11 THE WITNESS: Could you restate, Mr. Shaw?

12 BY MR. SHAW:

13 Q. In the testimony filed by you and Doctor
14 Cornell, have you complained about the requirement of
15 one PAL line per station and asked for that to be
16 changed?

17 A. If we are in any way challenging the rule,
18 no. At the time that it was put in place, as I stated
19 earlier, we felt that perhaps it was necessary until we
20 gained experience that this condition exist. We would
21 like to revisit this decision in the light of our
22 maturing in this marketplace to see if it does apply.

23 We would not really want the rule changed.
24 We would want to be allowed exceptions under certain
25 circumstances where we could come and ask for a

1 variance.

2 Q. By that answer and your previous answers, am
3 I to take it, that, to the extent your complaint and
4 the testimony you filed in support of that complaint
5 complains about conduct of U. S. West that is required
6 by the rules adopted by this Commission, you withdraw
7 those portions of your complaint?

8 MR. HARLOW: Mr. Shaw, could you clarify for
9 the witness and myself which portion of the testimony
10 you're referring to?

11 BY MR. SHAW:

12 Q. Do you understand the question, Mr. Coulson?

13 A. Not clearly, no, sir.

14 Q. From your previous answers that you're not
15 asking the Commission in the context of this complaint
16 to change any of its rules, you agree then to the
17 extent that your complaint, and your testimony then
18 supports it, is complaining about conduct of U. S. West
19 that is required by these Commission's rules, you
20 withdraw that portion of your testimony and your
21 complaint?

22 MR. HARLOW: Judge, I think the witness is
23 entitled to know what testimony Mr. Shaw is referring
24 to in asking this question.

25 THE COURT: I'm going to overrule the

1 objection, Mr. Harlow, sir.

2 THE WITNESS: If I understand you correctly,
3 Mr. Shaw, you're asking me if we are challenging rules
4 of the Commission that support U. S. West's unfair
5 marketing practices? I know of no such rules.

6 BY MR. SHAW:

7 Q. That's not what I asked you, Mr. Coulson.
8 I'll ask the question again:

9 To the extent that your complaint and the
10 testimony that you filed in support of it complains
11 about conduct of U. S. West that is pursuant to the
12 rules of this Commission, do you withdraw those
13 portions of the complaint and testimony?

14 MR. HARLOW: I'm going to object to this
15 question. It's so vague and ambiguous that it's been
16 asked two or three times now and the witness has been
17 unable to answer it.

18 THE COURT: I have overruled your objection,
19 Mr. Harlow, and I will do so on this one as well.

20 THE WITNESS: I'm frankly at a loss unless
21 you can help me, Mr. Shaw, to be a little more
22 specific.

23 We have addressed unfair practices. I don't
24 see how that relates to the rules. I'm just unclear
25 there. Could you help me?

1 BY MR. SHAW:

2 Q. Well, Mr. Coulson, you withdraw your
3 testimony, for example, that in any way complains about
4 the requirement of one PAL line per station?

5 A. Would I withdraw that complaint, sir?

6 Q. Yes.

7 A. I can't speak for the association in regards
8 to that. It hasn't been discussed. It is a very deep
9 concern of ours because it affects our ability to be
10 competitive in the larger installations. I do not feel
11 that that is a complaint that we would really withdraw
12 by virtue of it. It is a rule, we understand. But we
13 want to revisit that rule.

14 Q. In the context of this complaint and this
15 proceeding here today; correct?

16 A. Correct.

17 THE COURT: Is this a point in your
18 questions we could take a morning break, Mr. Shaw?

19 MR. SHAW: This is fine, your Honor.

20 THE COURT: All right. Let's take fifteen
21 minutes. Be back at 11:00, please.

22 (Recess.)

23 THE COURT: Let's be back on the record
24 after a morning recess.

25 Go ahead, Mr. Shaw.

1 BY MR. SHAW:

2 Q. Before the break, Mr. Coulson, we were
3 talking about the history of pay telephone service
4 generally in this state. And I would like to return to
5 that if I could.

6 Is it your understanding that a local
7 exchange company like U. S. West has a requirement to
8 provide pay telephone service, if you know?

9 A. Not as a legal requirement.

10 Q. We discussed that providing pay telephone
11 service as a form of local service. Would you expect
12 that this Commission, in turn, expects U. S. West to
13 provide pay telephone service as part of its local
14 exchange service?

15 A. Yes.

16 Q. Would you expect that this Commission would
17 become involved and review whether or not it was in the
18 public interest if U. S. West elected to withdraw from
19 providing pay telephone service in the state of
20 Washington?

21 MR. HARLOW: Objection. Calls for
22 speculation. There is no foundation that the witness
23 has a basis to answer these questions.

24 THE COURT: Mr. Shaw?

25 MR. SHAW: Your Honor, earlier there was an

1 objection that U. S. West could not withdraw its PAL
2 line tariff as a matter of law when we were discussing
3 that. I think that it's relevant and in essence
4 brought up by the witness and his counsel whether or
5 not the same objection would lie if we would attempt to
6 withdraw our pay telephone service.

7 THE COURT: Mr. Harlow?

8 MR. HARLOW: I just don't see any relevance.
9 Again, we still have no tie-in to his prefiled
10 testimony. There is no foundation that he has a basis
11 to speculate on what the Commission might or might not
12 do.

13 I think we're getting very far afield from
14 the issues raised in the direct testimony filed by Mr.
15 Coulson.

16 THE COURT: I'm going to overrule the
17 objection and ask the witness to answer, sir.

18 THE WITNESS: We have two questions that are
19 out there, Mr. Shaw. First of all, would I object if
20 U. S. West elected to remove their tariff to provide
21 PAL line services? I feel that U. S. West made that
22 decision when they offered the PAL line tariff. If
23 they were to withdraw it, it would be -- I guess there
24 is no contractual agreement. We would view that as a
25 breach of contract because of the financial damage.

1 If U. S. West were to elect to vacate the
2 public payphone business, that would be something I am
3 sure that would be of grave concern to everyone because
4 of the public policy phones that are out there.

5 Public policy phones can be addressed by the
6 Northwest Payphone Association. However, it's beyond
7 my capability to speculate as to what the Commission's
8 true desires are in this arena.

9 Whether or not the regulated company should
10 remain in the public payphone business is really for
11 the Commission to decide, and it's not for me to
12 speculate on.

13 BY MR. SHAW:

14 Q. You earlier referred to regulated
15 telephones, and I believe that you answered you meant
16 by that the fact that U. S. West provides pay telephone
17 service to the public under regulation. Is that
18 correct? By this Commission?

19 A. No. When I say regulated payphone, it's a
20 term that's in our industry because of the fact that
21 the payphone as used by U. S. West was a product which
22 was regulated. It was not available for purchase on
23 the open market. And it was patents by the Bell Labs
24 and such involved.

25 This is a regulated product.

1 Q. By that you referred only to the opportunity
2 to buy a Bell system payphone?

3 A. That would be correct. That was where my
4 emphasis was on the regulated phone, yes.

5 Q. Talking about local exchange company phones
6 as regulated phones, you don't mean to express any
7 opinion whether or not that service is a regulated
8 service by this Commission in the state of Washington?

9 A. No. The comments that I made were not
10 regarding regulation.

11 Q. When the FCC allowed non-local exchange
12 company sets to be connected to the interstate network
13 and U. S. West elected to file a PAL line tariff for
14 intrastate service in the state of Washington, you
15 entered the industry at that time providing public
16 telephone service. Is that your testimony?

17 A. Yes.

18 Q. And when you did that, did you do it in the
19 fashion of placing your sets, owning and maintaining
20 them, and soliciting business from the general public?

21 A. Yes.

22 Q. And in what form did you enter that
23 business? What was the name of your firm or company?

24 A. When we first entered the business, we were
25 not actually in the business of soliciting locations

1 and such. The purpose of our business originally was
2 to provide installation and maintenance service for
3 investor groups that were forming to provide the
4 equipment and such. We were going to be strictly a
5 maintenance function at that time.

6 Q. Today Digital places sets at property
7 owners' locations and holds those sets out to the
8 public for local and long distance phone calls, do they
9 not?

10 A. Yes, we do.

11 Q. And when did you enter that business?

12 A. Because Digital, speaking for Digital, we're
13 a little unique in the business, could you clarify that
14 for me? I don't want confusion here as to soliciting
15 sites or soliciting the installation. We provide the
16 service of installation and maintenance and collection
17 for others. We do not actually solicit the sites.

18 Q. It's possible, is it not, for a business
19 such as a hotel to buy a pay telephone, get a PAL line
20 from the local exchange company, and enter the business
21 of customer-provided payphones? Is that correct?

22 A. To the best of my knowledge, there is no
23 restriction on who may place these equipments, yes.

24 Q. And I believe your testimony is to the
25 effect that, oh, that once was common. That is no

1 longer common; that an individual business or site
2 owner elects to own and operate their own telephone
3 set?

4 A. That's correct.

5 Q. And the term COCOT, customer-owned
6 telephone, is used to distinguish that kind of an
7 operation from your kind of operation where you own and
8 place the phones; is that correct?

9 MR. HARLOW: I'm going to object to the
10 extent you're calling for a legal conclusion again.
11 Are you simply referring to the witness's
12 understanding, Mr. Shaw?

13 MR. SHAW: Yes.

14 THE COURT: I'm going to overrule the
15 objection with the understanding it's the witness's
16 understanding.

17 THE WITNESS: The term COCOT evolved very
18 early on in our industry, and it's an acronym for
19 customer-owned, customer-operated telephone. It's a
20 broad term.

21 It could be the actual premise owns his own
22 phone or it could be owned by others and even operated
23 by others. And they all fall into that classification,
24 really.

25 BY MR. SHAW:

1 Q. Let's talk about more detail about how you
2 operate. You obtain a site agreement with a property
3 owner. You place a telephone on that site. You sell
4 services to the public. And you pay the site owner a
5 commission or rental fee for the privilege of using
6 that site. Isn't that correct?

7 A. If you're speaking generally of the members
8 in the association, that would be a correct statement.
9 It does not apply to Digital because our position is a
10 little different. We do not solicit sites nor go out
11 into the marketplace. We provide service for others.

12 Q. Digital specifically purchases from another
13 company the right to place a telephone at a site; is
14 that correct?

15 A. That is correct.

16 Q. And that company in turn persuades the
17 property owner to place your telephone on his site;
18 correct?

19 A. That is correct.

20 Q. And you pay a one-time fee to that other
21 company for bringing that customer site to you?

22 A. Digital does not.

23 Q. How do you compensate that company?

24 A. We do not. We contract with that company to
25 perform the installation and the ongoing service. We

1 do not buy the contracts, nor do we own any of the
2 sites that are out there, the equipment on the sites.

3 Q. The site itself, you have a direct agreement
4 between Digital and the site owner, do you not?

5 A. No, I do not.

6 Q. Who has that agreement with the site owner?

7 A. The contract is written normally -- our
8 major source is through Pacific West Communications.
9 They are strictly a marketing arm. They locate the
10 sites. It's a highly specialized business. They bring
11 those sites to us with a negotiated contract.

12 Their contract includes the requirement that
13 Digital install and maintain the equipment. We are not
14 involved in the actual contractual agreement.

15 Q. You have no contractual agreement whatsoever
16 with the site owner, Digital?

17 A. Indirectly we do because the site contract
18 includes the commitment to maintain and scheduling the
19 requirements thereof. In that regard we are part of
20 the contract.

21 Q. Is your signature, your company's authorized
22 signature, on a contract between you and the site
23 owner?

24 A. No, it is not.

25 Q. That contract is between Pacific and the

1 site owner?

2 A. Yes, it is.

3 Q. And Pacific in turn contracts with you to
4 install and maintain a telephone on that site?

5 A. That is correct.

6 Q. And you own that telephone, Digital?

7 A. No, I do not.

8 Q. Who owns that telephone?

9 A. The funding for it comes through a limited
10 partner.

11 Q. Does the limited partner own the phone?

12 A. He is the ultimate owner, yes.

13 Q. And who markets these phones on behalf of
14 the limited partners?

15 A. The general partner -- well, as it's stated,
16 who markets for the limited partners? Is that what
17 you're saying? The general partner arranges for the
18 marketing on behalf of the limited partners.

19 Q. Digital is not the general partner?

20 A. No, it is not.

21 Q. Who is the general partner?

22 A. The general partner for most of our
23 locations is California Phones, Limited, in California.

24 Q. Is Digital owned in any way by California
25 Phones?

1 A. We have no financial relationship other than
2 the contractual relationship that exists to install and
3 maintain on their behalf.

4 Q. So, California Phones, a general partner, in
5 turn sells to limited partners the opportunity to
6 operate the telephone at a 7-Eleven in Tacoma,
7 installed and maintained by Digital? Is that what I'm
8 to understand?

9 A. It would be along that line, yes.

10 Q. How is it differing from that description I
11 gave you?

12 A. The limited partner places up a set fee that
13 allows him to benefit in the profits of a location.

14 Q. Are the limited partners typically doctors
15 and lawyers, other professionals, well-to-do people
16 looking for an investment opportunity for their money?

17 A. It's a broader spectrum than that. There
18 are a lot of school teachers. Some of the partnerships
19 have matured and qualified for IRA investments, and we
20 now handle IRA roll-over, as well.

21 Q. So, who owns the phone that you place in
22 Washington? The limited partner?

23 A. The limited partner, yes.

24 Q. And the limited partner gets an accounting
25 from you on a monthly basis of what that phone is

1 bringing in?

2 A. That is correct.

3 Q. And that limited partner gets, after your
4 expenses and the general partner's expenses, a return
5 on that investment of that individual phone?

6 A. That is correct.

7 Q. That investment is attractive to those
8 limited partners, I take it?

9 A. It has to be, or we wouldn't continue to
10 grow.

11 Q. And it returns twelve percent or more on
12 that limited partner's investment?

13 A. It would vary. But that's consistent, yes.

14 Q. Could I bring one point of clarification on
15 that statement, Mr. Shaw?

16 Q. Go ahead.

17 A. The term "return on investment" is an
18 overbroad meaning in some cases. When I say the
19 percentage return, I'm including return of capital over
20 a five-year period.

21 Q. Over a five-year period, that limited
22 partner earns on average twelve percent or more on its
23 investment; correct?

24 A. That is our goal, yes, sir.

25 Q. And you're successful in meeting that goal;

1 correct?

2 A. In most locations, yes, sir.

3 Q. So, who in your view, Mr. Coulson, in the
4 context of how you operate through your company,
5 Digital, is providing the public telephone service in
6 the state of Washington?

7 A. A great many people are providing it.

8 Q. Is Digital providing it?

9 A. I question the terminology. We are
10 providing public access to the network, yes.

11 Q. Is Digital the subscriber to the PAL line?

12 A. Yes, we are.

13 Q. Is there any relationship at all between the
14 services offered by U. S. West and the general partner,
15 California Phones?

16 A. There is no direct relationship, no.

17 Q. California Phones is not a subscriber of
18 record for any service of U. S. West in Washington, is
19 it?

20 A. Not to my knowledge.

21 Q. Your individual limited partners are not
22 subscribers of record for any U. S. West service in the
23 state of Washington, are they?

24 A. Not to my knowledge.

25 Q. Your contract calls for you to pay the

1 direct expenses, remove your profit and overhead, and
2 return the net amount on a per-phone basis to
3 California Phones; is that correct?

4 A. That is correct.

5 Q. And you have no relationship at all with the
6 limited partner as Digital?

7 A. No. A personal relationship, but no
8 financial interest whatsoever.

9 Q. And your testimony is that Digital is a
10 typical public payphone provider in the state of
11 Washington; is that correct?

12 A. No, sir, Mr. Shaw. My specific testimony is
13 that Digital is quite unique in the way that it does
14 its business in the state of Washington.

15 Q. Page 4 on Line 23 of your Exhibit T-15, you
16 make the statement: "I will be using Digital as an
17 example in parts of my testimony, when I believe that
18 Digital is typical of the industry generally."

19 Do you see that statement?

20 A. Yes, sir.

21 Q. Your testimony is that Digital is atypical
22 in the industry in terms of how it conducts its
23 business?

24 A. Yes. I made that statement only when I
25 could make a fair statement as to the way we operate

1 and our profitability structure. I did not mean by
2 that that we were indicative of the industry.

3 Q. You have elected by the Northwest Payphone
4 Association to give the sole association testimony on
5 behalf of all of its members; is that correct?

6 A. Yes, you could say that.

7 Q. How many members does the Northwest Payphone
8 Association have?

9 A. I am not really in a position -- I would
10 have to discuss that with the secretary. As far as a
11 count is concerned, I have no knowledge.

12 Q. Is it more than ten?

13 A. Oh, yes. Our meetings, we normally have
14 fifty, sixty people or better turn out.

15 Q. You have voting members who are, like
16 Digital, in the business of providing pay telephone
17 service in the state of Washington?

18 A. Yes.

19 Q. And you have non-voting members like
20 equipment suppliers and so forth?

21 A. Yes, we do.

22 Q. Directing your attention to the voting
23 members, how many voting members do you have?

24 A. Again, Mr. Shaw, I'm not -- I just don't
25 know.

1 Q. More than ten?

2 A. I know at least that many of my own
3 knowledge, yes.

4 Q. Are all non-LEC pay telephone providers in
5 the state of Washington a member of your association?

6 A. No, sir, I do not believe so; only because
7 we haven't been able to locate them.

8 Q. As a member of this industry, is it your
9 testimony that you don't have any idea of how many
10 companies are in this business in the state of
11 Washington?

12 A. The only way that we would have of really
13 defining who was out there in this business would be to
14 have U. S. West and the other independent companies
15 disclose their PAL line list to us. This, of course,
16 can't be done. So, therefore, we have to find them in
17 the course of our business and try to bring them into
18 the association.

19 Q. Would you say there is more than 25 such
20 providers that you know of in the state of Washington?

21 A. I would feel comfortable saying that, yes.

22 Q. More than 50?

23 A. That would be -- I really couldn't say.

24 Q. Somewhere between 25 and 50 then is your
25 best knowledge?

1 A. A fair assumption, yes.

2 Q. You say that Digital is atypical. How does
3 the typical operator structure its business?

4 A. The only real difference resides in the fact
5 that we have a pure management function. The same
6 things that we do exist in every competitive payphone
7 provider's business. The difference is that they bring
8 in their own capital, and the profits derive directly
9 to them. That's basically the only difference.

10 Q. And as your testimony states, generally the
11 members of your industry are profitable; correct?

12 MR. HARLOW: Objection. Mr. Shaw, will you
13 please point to that part of his testimony where you
14 think he said that most of them are profitable?

15 THE COURT: Mr. Shaw?

16 BY MR. SHAW:

17 Q. Page 13, Mr. Coulson. First full question
18 and answer.

19 A. Yes.

20 Q. You state that some providers are very
21 profitable. And others have gone out of business.

22 Are all of the members of your association
23 in this business in the state of Washington that have
24 not gone out of business profitable?

25 A. That would really require knowledge of their

1 internal business affairs that I don't know. They put
2 their capital at risk. And whether they are getting a
3 return on their capital or not, I have no direct
4 knowledge.

5 Q. All you can testify to is that you know that
6 you're profitable?

7 A. We are.

8 Q. Do you classify yourself as one of the very
9 profitable ones?

10 A. No, not at all.

11 Q. What's very profitable in your estimation?

12 A. Again, it would determine the amount of
13 capital that is at risk and the amount of return on it.
14 When I say "very profitable," I am referring to some of
15 the payphone organizations, competitive payphone
16 providers, that have gone across ten states and now
17 number up in the 40,000/50,000 locations. These are
18 obviously very profitable operations, but it's due to
19 their size as much as anything else.

20 Q. I take it from that answer that some members
21 of your association are very sizable organizations
22 providing service across several states?

23 A. As compared to other organizations that
24 exist in this country. There is nothing in the
25 Northwest that's sizable. Some of the larger

1 competitive payphone providers have been highly
2 capitalized and, consequently, they have acquired
3 others and spread rapidly throughout the country to a
4 very large number of locations.

5 This has not existed in the Northwest.

6 Q. Which members of your association are very
7 profitable?

8 A. I would have no direct knowledge.

9 Q. Are you a registered telecommunications
10 company in the state of Washington, your company,
11 Digital?

12 A. No, sir, we are not.

13 Q. Why are you not registered as a
14 telecommunications company in the state of Washington?

15 A. To the best of my knowledge, we have not
16 been required to.

17 Q. When you say to the best of your knowledge
18 you have not been required to, have you made inquiry of
19 this Commission on whether or not you need to be a
20 registered company?

21 A. We have made inquiries of the Staff, yes.

22 Q. And what has the Staff told you?

23 A. The comments that came back were it was
24 something that was being discussed. It was something
25 that was being looked at on an ongoing basis. The

1 decision has been made to bring in those vendors who
2 were using the store and forward technology and asked
3 that they file their tariffs as an operator service
4 provider. They would be registered.

5 Q. Is it your testimony that the Staff has told
6 you that only payphone providers using store and
7 forward capability are telecommunications companies
8 that must be registered?

9 A. Mr. Shaw, I never made a specific -- I have
10 asked if it's necessary. I have been advised that if
11 it becomes necessary I will be so instructed. I have
12 made myself available to register in the event that
13 that is the desire of the Commission.

14 Q. But you have no objection to registering as
15 a telecommunications company and filing tariffs for the
16 local and toll services you offer in the state of
17 Washington?

18 A. I would be glad to file tariffs.

19 MR. HARLOW: I would like to clarify that
20 testimony. When you say "you," are you referring to
21 Digital Access? Or are you referring to his capacity
22 as representing the entire association?

23 MR. SHAW: Digital in this case.

24 THE COURT: And your ans_er, sir?

25 THE WITNESS: In the case of Digital, I have

1 no objection to filing. In fact, with the rates that
2 we're charging for coin calls, I would be glad to file.
3 I function under tariffs filed by others. So, I'm not
4 untariffed if that's what we're looking at.

5 BY MR. SHAW:

6 Q. We have talked about your coin service where
7 you charge a quarter to place a local call. You also
8 place toll calls for your customers when they deposit
9 coins as you have demonstrated this morning?

10 A. Yes, we do.

11 Q. And when that customer dumps quarters into
12 your box and places a call, say, from Seattle to
13 Spokane, is it your testimony that you're not providing
14 that toll call?

15 A. I am providing access to an interexchange
16 carrier.

17 Q. You subscribe to an interexchange carrier
18 for your sets, do you not?

19 A. Yes, I do.

20 Q. The customer has no choice in that carrier
21 when he deposits coins, does he?

22 A. No, sir.

23 Q. That phone is pre-subscribed to the carrier
24 of your choice; correct?

25 A. If we're discussing the One Plus call, the

1 interexchange carriers' traffic, this does not really
2 involve the pre-subscription. It's done by
3 redirection, if you would. I direct that traffic to my
4 contracted carrier with whom I have negotiated the most
5 favorable rates so that I can in turn pass that along
6 to the consumer and offer the call at that price.

7 Q. And that carrier that you contract with --
8 And in your case, which carrier is it?

9 A. It's currently MCI V-Net program.

10 Q. From that answer you subscribe to two
11 carriers for your phones?

12 A. I beg your pardon?

13 Q. From that answer do I take it you subscribe
14 to two carriers for your calls?

15 A. Two interexchange carriers?

16 Q. Yes.

17 A. No, sir. Just one.

18 Q. When you say MCI V-Net, you mean that's the
19 name of MCI's service, V-Net?

20 A. V-Net is a product offered to me by MCI,
21 yes.

22 Q. You're the subscriber to MCI? You're
23 responsible for MCI's charges, correct, for traffic?

24 A. No. MCI charges by the tariff they have on
25 file.

1 Q. They charge that to you; is that correct?

2 A. That is their charge to me, yes.

3 Q. And you negotiate a rate based upon the
4 volume you can deliver to MCI; is that correct?

5 A. My rate is volume-sensitive, yes.

6 Q. MCI is an interLATA and intraLATA carrier in
7 the state of Washington?

8 A. Yes.

9 Q. Can you complete all of your interLATA and
10 intraLATA calls?

11 A. That is correct.

12 Q. The contract you have with them gives you an
13 increasing discount based upon all of the volume, both
14 interLATA and intraLATA; correct?

15 A. That is correct.

16 Q. And the more minutes of use you can generate
17 out of your telephone for MCI, the less you pay MCI;
18 correct?

19 A. This is the normal way the market functions.
20 Yes, sir.

21 Q. And the customer that comes up and drops
22 quarters into your phone has no selection of which
23 carrier he uses. He gets MCI in all cases if he elects
24 to have a sent-paid call by depositing coins; correct?

25 A. Yes, sir. I could see no reason why he

1 might choose to go a more expensive route. It never
2 entered my thinking.

3 Q. And you offer a service that you're very
4 proud of, four minutes for a dollar anywhere in the
5 contiguous United States; correct?

6 A. That is correct. And we introduced it as an
7 economy to the consumer. We introduced it also as an
8 alternative to using the charge card.

9 Q. Is it your testimony that you lose money on
10 those calls?

11 A. No, sir, we do not.

12 Q. You, in fact, make money for you and your
13 investors on those calls, do you not?

14 A. That's why we're in business. Yes, sir.

15 Q. And you do that because the volumes you can
16 give MCI, they give you a very low rate per minute;
17 correct?

18 A. They give me a very competitive rate, yes,
19 sir.

20 Q. U. S. West can't provide interLATA service,
21 can it?

22 A. U. S. West can provide and does provide --
23 InterLATA, did you say?

24 Q. Yes.

25 A. No interLATA, no.

1 Q. U. S. West cannot give you a discount toll
2 service combining interLATA and intraLATA minutes, can
3 they, like MCI?

4 A. If they don't carry the traffic, no, sir.

5 Q. And what enables you to offer four minutes
6 for a dollar and still make a profit, again, is the low
7 per-minute charge that MCI is able to give you by
8 consolidating the interLATA and intraLATA traffic and
9 giving you a volume discount; correct?

10 A. It's not as significant as you would think.
11 Eighty percent of my traffic is intraLATA. The
12 addition would a_ply and adjust the price somewhat, but
13 it's not the dominant factor.

14 Q. Do you consider yourself an intraLATA toll
15 provider?

16 A. No, I am not.

17 Q. Do you consider yourself an interLATA toll
18 provider?

19 A. No, sir, I'm not.

20 Q. In the context of your four minutes for a
21 dollar calls, sent-paid coin calls, why do you not
22 consider yourself to be providing toll service?

23 A. I provide access to the toll service, sir.
24 I do not provide the service itself.

25 Q. When you provide a local call for a coin box

1 rate, do you consider yourself in the business of
2 providing local calls?

3 A. I provide access to the local calling
4 network.

5 Q. When U. S. West completes a local call from
6 a pay station or an intraLATA toll call, do you
7 consider U. S. West to be providing a local or
8 intraLATA toll call?

9 A. Because they are the monopoly provider, yes,
10 they are the one who is providing both functions:
11 access and the actual handling of the traffic.

12 Q. Is it your testimony, then, that to provide
13 a local call in the state of Washington, a payphone
14 provider has to also be a local exchange carrier?

15 A. No, sir. I have to purchase those services
16 from the local exchange service.

17 Q. Let me ask you the question again. Perhaps
18 you misunderstood it:

19 Is it your testimony that for a pay
20 telephone service provider in the state of Washington
21 to be in the business of providing local service that
22 they also have to be a local exchange company?

23 A. No, that's not my understanding.

24 Q. So, any pay telephone service provider can
25 provide local exchange service; correct?

1 A. If that's what I said, I certainly didn't
2 mean it. I cannot provide local exchange service.
3 That is the monopoly enterprise. I must purchase that
4 service from the monopoly.

5 Q. When you provide intraLATA toll service
6 through MCI, are you required to buy that service which
7 you in turn supply to your customers from any one
8 carrier?

9 A. No. I have choice in that regard.

10 Q. So, are you in the business of providing
11 intraLATA toll because you have the opportunity to buy
12 from any provider?

13 A. Maybe I need a clarification on what you
14 mean by "providing." I provide access to these
15 facilities. I do not provide them. It sounds like
16 you're trying to put me in the position of being a
17 carrier. I am not.

18 Q. I'm just trying to get your understanding.

19 A. Okay.

20 Q. You take money from members of the general
21 public and in turn you supply them the end-to-end
22 ability to make a local or toll call?

23 A. Yes, that's correct.

24 Q. Now, will you install a phone for a site
25 provider and allow him to be the limited partner where

1 he owns and gains the profits from the phone?

2 A. Excuse me, but the limited partner in there
3 threw me. Could you restate that?

4 Q. If I owned a business and I wanted to put a
5 pay telephone in it, could I come to you and say,
6 "Digital, sell me a phone. I want to be your limited
7 partner and own and operate the phone, and you maintain
8 it for me."

9 Will you do that?

10 A. Again, I'm stumbling on the term "limited
11 partnership." That is a clear and distinct investment
12 opportunity that has -- no limited partner could
13 address me directly. It's an arm's length type of
14 arrangement. A limited partner cannot be directly
15 involved in the business enterprise or the investment.
16 Therefore, I would have to say no.

17 Q. Okay. If I came to you and wanted to put a
18 pay telephone in my business where I owned it --

19 THE COURT: The pay telephone?

20 BY MR. SHAW:

21 Q. -- the pay telephone and I got all the
22 profits from it, would you put that in for me for a
23 maintenance and service fee and maintain it for me?

24 A. I think the first time you asked that you
25 said can and then you said would. Yes, I can, but I

1 would be very reluctant to do so.

2 Q. You don't consider yourself in the COCOT
3 business, I take it?

4 MR. HARLOW: Again, I just want to make the
5 same clarification as before that he is not asking for
6 a legal conclusion here.

7 MR. SHAW: Your Honor, I don't believe it's
8 a legal term. It's a term in the industry that he has
9 already testified to.

10 THE COURT: I agree, Mr. Harlow. I think
11 the witness can answer that.

12 MR. HARLOW: I don't want to get trapped
13 into a position statement. I know where Mr. Shaw is
14 going with this. That's why I made the clarification.

15 THE WITNESS: Mr. Shaw, I can answer that on
16 my own behalf as to what our philosophy is.

17 Our business is the installation and
18 maintenance of the payphones. And in order to do it in
19 a comfortable manner, we feel that we must have
20 complete control. When we get into a person who buys a
21 phone for his own motivations, we would have to come to
22 a very clear understanding that just to manage it would
23 also include the requirements for keeping it legal,
24 keeping it properly posted, and all of the other
25 things.

1 A loose type of walk in and I'll take care
2 of it arrangement is something that we kind of shy away
3 from because we have to dilute who controls and who
4 makes the decisions. We would rather not do that.

5 BY MR. SHAW:

6 Q. And you _ould decline to do that?

7 A. I have on instances, yes, declined to do
8 that.

9 Q. Do you have some COCOT phones that you
10 manage and operate?

11 A. None that are owned directly by the premise.
12 I do manage and operate for other small vendors.

13 Q. So, you're not in the COCOT business at all?

14 A. If you mean customer owned and customer
15 operated, no, sir.

16 Q. And is that typical of _members of your
17 industry?

18 A. Again, it's a definition, "customer." If
19 you define customer as the location, then that would be
20 true of the others in the Payphone Association.

21 Q. Just so the record is clear, we are in
22 agreement that in this context we're talking about the
23 site owner or the real estate owner where the phone is
24 physically placed?

25 A. Yes.

1 THE COURT: How are you doing on your
2 estimate, Mr. Shaw?

3 MR. SHAW: Oh, I'm about half done, a little
4 more.

5 THE COURT: Great.

6 BY MR. SHAW:

7 Q. Let's talk about your revenues a little bit.
8 We have talked about your coin box revenues.

9 I take it you're free to charge as much as
10 you want for a local telephone sent-paid call for one
11 of your machines; correct?

12 A. To the best of my knowledge, there is no
13 limit on what I can charge for that. However,
14 competition has pretty well set the established price.

15 Q. You could charge \$.35 or \$.50 if you wish
16 since you're not a tariffed telecommunications company;
17 correct?

18 A. That would be correct.

19 Q. You, in fact, do upon occasion charge on a
20 measured basis instead of a flat-rate basis; is that
21 correct? Three minutes for a quarter?

22 A. We're dealing here with the exception rather
23 than the rule. Throughout the Payphone Association,
24 all the members that I have knowledge of, we do not
25 time local calls.

1 We do have specific instances where the
2 premise provider has requested due to people
3 monopolizing the public telephone that we put a time
4 limit on the call. And this is only with a certain
5 amount of careful negotiation with the premise provider
6 to tell him how the public does not like this timing.
7 But if he feels that it's in the best interest of his
8 business to do this, then we will do it.

9 Q. It's true that U. S. West has no measured
10 pay telephone service; correct?

11 A. That's a little overbroad. Are you talking
12 specifically of local calls?

13 Q. Yes.

14 A. To my knowledge, I don't know if they even
15 have the technology to time a local call. But they do
16 not to my knowledge.

17 Q. Your primary source of revenues is the coin
18 box for both local and sent-paid toll calls; is that
19 correct?

20 A. That is correct.

21 Q. And you are in complete charge of how much
22 you charge for a coin sent-paid toll call; is that
23 correct?

24 A. That is correct.

25 Q. You also receive from your exchange

1 companies commissions for you to use their services; is
2 that correct?

3 A. Again, could I clarify the terminology, Mr.
4 Shaw? We do not receive commissions from them. We
5 receive -- we pay the interexchange carrier for the
6 traffic that we send them. They don't pay me a
7 commission. I pay their bill.

8 Q. They don't pay you any kind of a commission
9 whatsoever for you to choose them?

10 A. If you want to refer to volume discounting
11 and such as a commission. But traditionally a
12 commission is a fee paid for services rendered.

13 No, they give me more favorable rates. I
14 would rather have it that way than the term commission.

15 Q. The difference between their discounted
16 rates and what you charge the end user is revenue to
17 you, I take it?

18 A. Yes, it is.

19 Q. You also subscribe to operator service
20 companies for non-sent-paid traffic, I take it?

21 A. We subscribe to operator services to handle
22 our charge calls, collect calls, third-party billings.
23 This is something that evolved in the industry because,
24 when we first started, those revenues were not
25 available from U. S. West. So, consequently, we sought

1 those sources elsewhere, and we went to the people who
2 provided them for the hospitality industry and said,
3 hey, would you for us, too?

4 Yes, we do receive and contract for services
5 from other operator service providers.

6 Q. And they seek out your business, do they
7 not?

8 A. They are competitive.

9 Q. And what they offer you --

10 THE COURT: Is that a yes or no, sir?

11 THE WITNESS: Yes. I'm sorry.

12 THE COURT: Thank you.

13 BY MR. SHAW:

14 Q. And what they offer you is an opportunity to
15 make revenues off operator-assisted calls; is that
16 correct?

17 A. That is correct.

18 Q. And, in fact, they offer you, depending upon
19 what they charge the individual end user, a very
20 substantial opportunity for revenues; is that correct?

21 A. By substantial, as compared to? It's a
22 difficult thing to define.

23 Their cost structures are different if you
24 want to compare them to U. S. West, for example. U. S.
25 West on an intra-exchange call has a surcharge of \$.30,

1 I believe, to process that credit transaction.

2 Because that is a competitive service, my
3 operator service provider, which is International
4 Pacific, must pay for the billings, collections,
5 validations, and all. Their cost just to get the call
6 in and out before they pay any of the actual time and
7 charges can be \$.50 to as high as a \$1 for validation,
8 collection, bad debt, billing.

9 What you have charged the customer \$.30 for,
10 I have to get into \$.50 to a dollar before I'm on par
11 with you. So, there is a price disparity there. It's
12 not all commissionable income to me by any means.

13 However, we do maintain -- and I'm not
14 ashamed to say -- about thirty percent of our total
15 income is derived from this area.

16 Q. And this revenue source to you is the
17 difference between what the operator service company
18 bills to the end user customer and what that company
19 remits to you; is that correct?

20 A. The operator service provider bills the
21 customer according to the tariff that he has on file.
22 And we through negotiation determine how much of that
23 is passed on to my operation. That's essentially the
24 way it functions.

25 Q. Let's take an operator services call, say a

1 local call placed to a third number.

2 What does International Pacific charge your
3 customer to place such a call?

4 MR. HARLOW: Do you mean placed to a third
5 number or billed to a third number?

6 MR. SHAW: Billed to a third number. Excuse
7 me. I misspoke.

8 THE WITNESS: Mr. Shaw, I would have to have
9 a reference to rates and schedules. I don't have that
10 right off the top of my head. I'm sorry.

11 BY MR. SHAW:

12 Q. What would you get for that call that's
13 placed from your phone?

14 A. If it's within the same exchange, it's a
15 \$.50 fee.

16 Q. Your company gets \$.50 in revenues for
17 placing that call; correct?

18 A. That would be correct.

19 Q. And the end user pays something more than
20 that when he gets the bill at the end of the month;
21 correct?

22 A. It would be that plus the billing,
23 collections, bad debt, validation, and everything else
24 that has to go into delivering the product, yes, sir.

25 Q. Do you have any other sources of revenue

1 other than what we have talked about here so far this
2 morning?

3 A. At the present time, we have an advertising
4 campaign in conjunction with the Yellow Taxi in Tacoma
5 where we provide a free call to the taxi company at our
6 locations and they pay us on a per-call-received basis.

7 Q. Any other sources of revenue?

8 A. We're looking for them all the time. But at
9 the present time -- there are some in development, but
10 not at the present.

11 THE COURT: If you can look, Mr. Shaw, for a
12 good stopping point here in five minutes or so, that
13 would be helpful.

14 MR. SHAW: Fine.

15 BY MR. SHAW:

16 Q. Page 6 of your testimony you relate to
17 things that you do for the public. The first full
18 question and answer. Do you see that?

19 A. Yes.

20 Q. You state that many of these same services
21 are also provided by the local exchange company.

22 Isn't it true, Mr. Coulson, that virtually
23 everything you do for the public the local exchange
24 company also does, provides exactly the same public
25 telephone service?

1 A. Except for pricing, yes.

2 Q. When you say "except for pricing," you have
3 reference to the fact that the local exchange company
4 operates under tariffs and you don't?

5 A. You might put it that way. I was referring
6 directly to the dollar for four-minute call.

7 Q. In fact, Mr. Coulson, U. S. West, as a
8 regional Bell operating company, cannot provide that
9 service, can it, four minutes for a dollar?

10 A. It would be my understanding that U. S.
11 West, if competitive pressures prevailed, could come
12 back to the marketplace with an adjusted tariff to
13 compete in the intraLATA market for that traffic, yes.

14 Q. U. S. West cannot collect coins from its
15 payphone and offer a nationwide service four minutes
16 for a dollar, can it?

17 A. No. Just in the intraLATA. However, to
18 expand upon that, if U. S. West had favorable rates,
19 then they could enjoy that portion of my traffic that
20 is intraLATA.

21 Q. Your testimony, I take it, is, if U. S. West
22 would give you the same steep discounts that MCI does
23 for the intraLATA traffic, you would use U. S. West?

24 MR. HARLOW: Object to the term "steep
25 discounts."

1 THE COURT: Mr. Shaw?

2 MR. SHAW: Well, I think his testimony
3 speaks for itself.

4 THE COURT: How about changing that to
5 discounts?

6 MR. SHAW: Discounts, fine.

7 THE COURT: Sir, can you answer the
8 question?

9 THE WITNESS: Yes, I can.

10 I can't say that U. S. West would be my
11 carrier of choice if all things were equal pricewise.
12 I would still have to look at the quality of service,
13 the information that that service provider gives me,
14 and how we work together.

15 You must realize that the Northwest Payphone
16 Association and all of our members collectively
17 represent an extremely large customer to U. S. West.
18 Large customers are usually given some preferential
19 treatment.

20 MCI, my carrier, my monthly bills to him are
21 probably one third of what I pay to U. S. West. For
22 that we have a special account rep in New York who
23 contacts me three times weekly, at least, to make
24 certain everything is going right. There is perks,
25 tickets to the Mariners. They appreciate my business

1 and treat me as a valued customer.

2 I'm a much bigger customer of U. S. West,
3 and they relatively ignore me.

4 So, consequently, I would probably stay with
5 MCI even if your rates were on par, sir.

6 BY MR. SHAW:

7 Q. One thing U. S. West cannot give you that
8 MCI can give you is a discount on your interLATA
9 minutes if you use U. S. West for interLATA minutes.
10 Isn't that correct?

11 A. No, sir, that's not. Just as recently as
12 last week, a proposal from U. S. West came across my
13 desk to give me discount rates on that traffic.

14 Q. For interLATA traffic?

15 A. Yes, sir. To expand upon that, -- and
16 historically this has been the case -- the discount
17 amounted to almost an insult in the way that it was
18 presented.

19 What I currently pay for that interLATA
20 traffic ranges between eleven and twelve cents a
21 minute. They were willing to for a flat increase in my
22 PAL line rate of \$18 a month give me 100 free minutes.
23 That's \$.18 per minute. Increase my total across the
24 board costs \$18 a line so that I could pay more per
25 minute than I'm paying today.

1 That's not a proposal, sir. That's an
2 insult.

3 Q. Let me return again to interLATA minutes.
4 Are we agreed that U. S. West provides no interLATA
5 service?

6 A. InterLATA service?

7 Q. Yes, interLATA.

8 A. Yes.

9 Q. It's true, is it not, Mr. Coulson, that,
10 since U. S. West provides no interLATA service,
11 interLATA, there is no way that it can offer you a
12 discount on interLATA service, is there?

13 A. No, sir. There would be no way.

14 Q. And U. S. West, in fact, has never offered
15 you interLATA service at all, much less discounted
16 interLATA service; correct?

17 A. No, they have not. Intra-.

18 THE COURT: Is this a good point, Mr. Shaw?

19 MR. SHAW: Yes, fine.

20 THE COURT: Let's recess for lunch. Be back
21 at 1:30, please. Remember, participants, you need to
22 discuss a revised discovery schedule, and remember
23 everyone that has access to confidential information,
24 you are specifically responsible for your own copy.
25 Take it with you. This is not a secured room.

1 (At 12:00 noon the above hearing was
2 recessed until 1:_0 p.m. of the same day.)

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1 OLYMPIA, WASHINGTON; MONDAY, FEBRUARY 1, 1993

2 1:30 P.M.

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4

5 THE COURT: Let's be back on the record
6 after our lunch recess.

7 In the way of procedural matters, while we
8 were off the record, I asked counsel to check the
9 exhibit list I have prepared with the titles of the
10 various confidential exhibits on it and the number of
11 pages of each confidential exhibit to be sure that I
12 was not breaching confidentiality in some manner by
13 listing the titles. I believe everyone felt it was no
14 problem with confidentiality.

15 Is there anything else we need to discuss?
16 How are you all coming with your discovery dates? Or
17 have you had the chance to discuss it?

18 MR. HARLOW: We haven't had a chance to do
19 that. You had suggested earlier that we would put that
20 on the record tomorrow morning.

21 THE COURT: Yes.

22 MR. HARLOW: I think our most likely shot at
23 doing the discussion would be after today's
24 proceedings.

25 THE COURT: Okay. All right.

1 Go ahead, Mr. Shaw.

2

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

4 (Resumed)

5 BY MR. SHAW:

6 Q. Mr. Coulson, does your company Digital make
7 an analysis of profitability per location site before
8 you decide to place a phone?

9 A. To the best of our ability, yes.

10 Q. You, I take it, attempt to place phones
11 where they will be profitable; correct?

12 A. That's correct.

13 Q. And you don't believe that you have any
14 requirement to place phones that are not profitable, do
15 you?

16 A. If you're referring to public policy phones,
17 those that are put there for the public good and not
18 necessarily for profitability, the association
19 definitely stands behind that need, and there are
20 mechanisms in play in other parts of the country that
21 address that need from both the monopoly side or the
22 competitive payphone provider side.

23 Q. When you use those terms, you mean local
24 exchange company-provided phones versus non-local
25 exchange company-provided phones?

1 A. That's correct.

2 Q. Today, if you determined that a site will
3 not be profitable, do you decline to place that phone?

4 A. Yes, we would, unless we can work out a
5 method whereby we can maintain profitability and meet
6 the location's need. We have done this to where we can
7 negotiate.

8 We have instances where the phones are
9 required by law. And, therefore, they need not be
10 profitable. They are required by law. In those cases
11 we can negotiate with the site provider where he will
12 guarantee us our minimum break-even profit on the site.
13 We will go ahead and provide it in this case.

14 Q. What sites are required by law?

15 A. I speak specifically of the sites that are
16 not in Washington. They are in Oregon, and Oregon has
17 passed a law that requires a public payphone be
18 available at all of the car lock type of gasoline
19 stations.

20 Q. In Washington there are no sites required by
21 law, to your belief?

22 A. I do believe there are in the case of
23 taverns. Part of the liquor license requirement is a
24 public payphone.

25 Q. Any other instances?

1 A. Not that comes to mind right at the present.

2 Q. It's true, is it not, Mr. Coulson, that
3 eighty percent of the sites where you place phones were
4 previously served by a local exchange company phone?

5 A. That's correct. Twenty percent of our sites
6 are where no other phone existed prior.

7 Q. Now, typically where a site already has a
8 local exchange company-provided phone, I take it in
9 some fashion one of the companies that you testified to
10 this morning approaches that site owner and makes them
11 a proposal to change their phones out; correct?

12 A. That would be correct.

13 Q. And one of the enticements to do so is to
14 increase the revenues to the site owner from the
15 operation of that phone?

16 A. That was originally the method that it was
17 marketed. Now we're bringing in -- and, again, the
18 dollar call is our strongest marketing tool.

19 Q. Any other marketing tools that you rely on?

20 A. Service is one that we're quite proud of and
21 our response times and our ability to service on
22 weekends when the need can be the greatest at some of
23 these locations.

24 Q. The site owner that wants for whatever
25 reason to have a public payphone on his premises, would

1 you say the first priority is the revenue that he can
2 expect to receive from that payphone?

3 A. The first thing we would look at would be
4 the need for profitability, yes.

5 Q. Approximately how much revenue per month do
6 you need from a phone in order to consider it
7 profitable?

8 A. On the gross revenue side, our initial
9 determination is based upon coin. Our preference is to
10 see coin at \$150.

11 Q. When you say "coin," that would be all the
12 sent-paid traffic, both toll and local; is that
13 correct?

14 A. That's correct.

15 Q. And if it meets that minimum benchmark,
16 you'll go ahead and put the phone in?

17 A. We would consider it a safe investment at
18 that time, yes.

19 Q. It's true, is it not, Mr. Coulson, that your
20 company, Digital, because of your use of smart phones,
21 has no use for a coin line?

22 A. If the coin line were unbundled, there are
23 features that we would be able to utilize. At the
24 onset coin line was of relative importance. However,
25 so much time has passed that we have developed

1 alternatives that continually lessen and lessen the
2 need.

3 So, in an unbundled function, there are
4 functions there that we would like to utilize, yes.

5 Q. The coin line as used by a local exchange
6 company to provide central office based pay telephone
7 service is not something that Digital or other
8 companies in your association desire. That's correct,
9 isn't it?

10 A. Those are independent business decisions.
11 Some may elect to go that direction. However, from
12 Digital's point of view, we see that as putting an
13 instrument on the wall that is exactly the same as our
14 competitors by virtue of the fact that they are
15 controlled by the same sorts of software. And there
16 goes the opportunity for competition.

17 Q. I take it from that answer you consider your
18 use of intelligent phones or smart phones like the
19 phone you demonstrated this morning to be one of your
20 significant competitive edges; correct?

21 A. Yes, we do.

22 Q. And the capabilities of that smart phone are
23 what allow you to differentiate yourself from local
24 exchange companies; correct?

25 A. Yes.

1 Q. So, if U. S. West were to offer you a coin
2 line, you wouldn't buy it; correct?

3 A. No. Had you asked me that question two
4 years ago, I would have probably said yes because it
5 was an economic decision. But now it's more of a
6 marketing decision, and I would have to say, with the
7 exception of a few of the capabilities that coin line
8 offers, if it were unbundled, we would elect those.

9 Q. What specific capabilities do you have
10 reference to?

11 A. Predominantly the line side answer
12 supervision. And, in addition to that, you have a
13 greater level of broad protection than we enjoy.

14 Q. Line side answer supervision has been
15 unbundled and offered in the state of Washington as a
16 stand-alone service, has it not?

17 A. Not totally. It's my understanding that
18 it's only available at 47 percent of the central
19 offices.

20 Q. Exact functionality of answer supervision
21 that's available at a coin line served by a central
22 office has been unbundled and made available out of in
23 the first instance Northern Telecom switches; is that
24 correct?

25 A. That is correct, to the best of my

1 knowledge.

2 Q. Greater fraud protection which you allude --

3 Do you have in mind a specific central
4 office functionality that you desire?

5 A. We are vulnerable because of the nature of
6 the PAL line. It is an open and free line from my
7 instrument to the central office. I provide a great
8 deal of fraud protection in the instrument to levels
9 that would make me very secure. However, I am
10 vulnerable behind the instrument to the central office.

11 The fraud protection afforded a coin line
12 resides at the central office. Therefore, any line
13 tapping or such between my instrument and the CO can be
14 bought.

15 Q. Without getting into specifics on the public
16 record, you're referring to the part of your
17 confidential testimony, T-C-19, where you talk about
18 generally the capability of someone cutting into the
19 line between your station and the central office?

20 A. That's correct.

21 Q. In fact, that's the same kind of fraud that
22 can be perpetuated on any access line offered by the
23 company, is it not?

24 A. Any access line? Not on coin line.

25 Q. For your home phone or your business phone,

1 if somebody can do it undetected, they could plug into
2 your protector and use your telephone line; is that
3 correct?

4 A. That's correct.

5 Q. Digital and the other companies that use
6 smart sets have no intention of going to the so-called
7 dumb set technology where all of the intelligence is in
8 the central office, do they?

9 A. I can't speak for everyone because that's an
10 independent business decision. I think that the
11 majority would feel that way. However, there is in
12 development now what we call a bright phone, which
13 takes the best of both worlds, helps us to diminish our
14 costs, and utilizes as much as of the central office as
15 we can.

16 Q. Specifically what part of the central office
17 would such a new technology utilize?

18 A. Predominantly in the fraud protection. This
19 would be our greatest concern.

20 Q. To summarize, then, am I correct in
21 understanding that the only thing your association
22 members want that's related to the coin line is some
23 sort of functionality that would monitor that line for
24 unauthorized use?

25 A. A little background on this: We purchased

1 now billed number screening which in effect tells
2 everybody in the world this is a payphone and you
3 cannot bill to it. Even after purchasing that
4 protection we continually do get billed. And we get
5 billed in large numbers in the international market.

6 We would assume when we purchased billed
7 number screening, U. S. West will advise all of their
8 transport carriers that this is a payphone. Frequently
9 this gets dropped or is ignored or for one reason or
10 another far beyond our control it happens.

11 My instrument will not allow these calls.
12 However, they get placed. I by FCC regulation as the
13 subscriber am ultimately responsible for that bill.
14 And it puts me in a very, very tenuous position when I
15 have to purchase a screening and nobody will assume the
16 liability. It becomes mine ultimately.

17 This is why we would like to have those
18 security features. They don't happen on coin line to
19 that extent.

20 Q. I'm a bit confused. I wonder if you have
21 changed subjects on me. We were talking about fraud
22 that is occasioned by somebody cutting into the line.
23 Are you saying that your international fraud is due to
24 people cutting into your lines?

25 A. No. It's fraud in general. You said what

1 other things, and I brought out the ability there. We
2 would unbundle those things of the central office that
3 protect us from fraud, all fraud, that you enjoy on the
4 coin line. This is what we really would desire.

5 Q. Is it your testimony that U. S. West has
6 some sort of functionality in the central office that
7 can guarantee no international calls are placed that
8 you do not have available?

9 A. It has just now been made available to us.
10 And we're analyzing the feature, and we're analyzing
11 the cost of international call blocking. It's quite
12 expensive for us to install. And until we get a
13 clarification of what relief from liability it will
14 give us, we can't determine whether or not it's a
15 feature that we can even benefit from.

16 Q. So, in fact, the local exchange companies
17 offer you from the central office the capability to
18 block all international calls from your sets; correct?

19 A. All supposedly direct-dialed international
20 calls, yes.

21 Q. What other features that are available do
22 you want in regard to international calls?

23 A. It's not a feature. It's an assumption of
24 liability. And we feel that, if we purchase a blocking
25 service, then we should also be free of the liability

1 that might occur in the event that that blocking does
2 not function.

3 Q. So, there are no additional features that
4 you desire from a coin line in regard to international
5 calling; is that correct?

6 A. That would be correct.

7 Q. With regard to U. S. West's prices, by your
8 testimony are you requesting this Commission to
9 increase U. S. West's coin service prices to the
10 public?

11 A. Mr. Shaw, our complaint does not
12 specifically ask the Commission to do anything other
13 than look at the situation and provide us with fairness
14 in pricing and fairness in competitive environment.

15 We do not take it upon ourselves to tell the
16 Commission what we feel would be best. We can make our
17 problems known, and then we believe that it's the
18 Commission -- that the Commission will look at the
19 public policy interests and our interests and the
20 monopoly interests and make a decision that will allow
21 us to do business in a competitive and free manner.

22 MR. HARLOW: Mr. Shaw, I might note that I
23 think Mr. Coulson has done a good job of answering
24 within the scope of his capability. But if you're
25 intending to go further than that, you're really

1 getting into an area for Doctor Cornell when you're
2 talking about pricing and economic issues such as that.

3 MR. SHAW: Well, your Honor, this is the
4 only witness offered by this large association that
5 filed this complaint. Doctor Cornell didn't file the
6 complaint. The complaint was filed well over a year
7 ago.

8 I presume the complaint asked the Commission
9 to do something and that this witness knows what this
10 association wants the Commission to do. I think it's
11 totally appropriate testimony. If he doesn't know, he
12 will have to say so, I guess.

13 THE COURT: Mr. Harlow, I am concerned that
14 generally when a party comes before the Commission
15 asking for something, it asks specifically for
16 something.

17 Now, the Commission would have a hard time
18 acting on just a general request to make something
19 better. The Commission really does need to know what
20 you are specifically requesting. And if there are
21 alternatives that you are suggesting, the Commission
22 would like to know that, too.

23 But really to just come and say fix it and
24 not make suggestions and not say what would constitute
25 fixing it in the minds of these complaining parties I

1 think makes it unlikely that the Commission would be
2 able to help you much.

3 MR. HARLOW: Well, the testimony of Doctor
4 Cornell does contain such specific recommendations.
5 Testimony of Mr. Coulson for the most part,
6 particularly when you're dealing with rate issues, does
7 not. And that's basically what I'm trying to indicate.

8 Our final request for relief will to some
9 extent depend on how U. S. West responds to the
10 complaint and the position the Staff takes.

11 But there are specific recommendations in
12 Doctor Cornell's testimony. And that's simply the
13 point I'm trying to make. I'm not objecting to the
14 last question or the answer. But I would object to the
15 extent Mr. Shaw intends to delve into this much more
16 deeply than this as being more appropriately within the
17 scope of Doctor Cornell's testimony and expertise.

18 MR. SHAW: I have never heard of an
19 anticipatory objection like this.

20 THE COURT: I'm sure he will make it when
21 it's time. What I want to make clear to you, Mr.
22 Harlow, is the Commission wants to know what it is your
23 clients want, what they are suggesting, what they feel
24 would make all this better.

25 I think that the responding party is

1 entitled to ask what is it you're asking for. Now,
2 this witness has described a number of things that he
3 identifies as problems, and I don't think it's out of
4 the scope of his testimony to say what do you think
5 would make this better?

6 MR. HARLOW: I may be getting ahead of
7 myself. I'm certainly not making an anticipatory
8 objection because there isn't one. I was simply trying
9 to alert the Commission as well as Mr. Shaw that, as is
10 often done, we may be starting to get into an area
11 where another witness would be able to answer the
12 questions better.

13 But I'm not going to state it as an
14 anticipatory objection. I think we have to take that
15 as it comes. I apologize if we're getting a little
16 ahead of ourselves here.

17 THE COURT: I want to make it clear to you
18 and your witness that, if you don't suggest what you
19 want the Commission to do, the Commission may not do
20 what you haven't told us.

21 That didn't come out right.

22 THE WITNESS: I think I can be of help here
23 because I don't want to appear evasive.

24 It may be a broad answer, Mr. Shaw, but I'll
25 offer the best that I can.

1 Our intent is to, in order to establish
2 sound economic competition, that U. S. West impute the
3 same costs to their coin operation that they charge to
4 us. Thereby we are both starting from the same cost
5 basis, and profitability then is at the behest of the
6 marketplace.

7 The other issue is the issue of fairness in
8 competition. The arm's length agreement -- you can go
9 back historically to 1980 when the inter-connect
10 companies came into being and the customer provided
11 equipment people out there, the FCC mandated arm's
12 length competition to whereby the monopoly company
13 could not use their information to the competitive
14 providers' disadvantage.

15 When we came along in '85, I think we had
16 every right to assume that those same rules would be
17 extended to our business because we were in the same
18 environment.

19 MR. SHAW: Excuse me, Mr. Coulson.

20 Your Honor, I'm going to object and ask this
21 last part be struck. It doesn't have anything to do
22 about the question, which was directed specifically to
23 whether or not Mr. Coulson on behalf of the association
24 wished the Commission to increase U. S. West's coin
25 rates. And then we had the discussion by Mr. Harlow

1 about the witness not being able to deal with that, and
2 now we're talking about something totally else.

3 THE COURT: I assume, Mr. Shaw, that the
4 witness was answering a broader question that I had
5 brought up, which was what is it you folks are asking
6 for in general?

7 MR. SHAW: Yes.

8 THE COURT: Perhaps Mr. Harlow can bring
9 that up then on redirect if you are asking just very
10 narrow questions at this point about specific areas.

11 I do want it somewhere in the record, Mr.
12 Harlow, just what your client wants.

13 At this point, then, sir, why don't you just
14 answer specifically Mr. Shaw's questions and let's be
15 sure then, Mr. Harlow, that you pick up anything else
16 they are requesting on redirect because I do want that
17 somewhere on the record.

18 MR. HARLOW: Okay.

19 THE WITNESS: Thank you, your Honor.

20 THE COURT: Go ahead, Mr. Shaw.

21 BY MR. SHAW:

22 Q. Mr. Coulson, going back to specifically the
23 rates of U. S. West, do you wish the Commission to
24 increase U. S. West's rates out of this proceeding?

25 A. To increase U. S. West's rates?

1 Q. Yes; that it charges the end user consumer
2 for public telephone service.

3 A. Okay. Thank you.

4 No, we do not ask that they increase the
5 end-user rates. This is something, again, that
6 involves public policy, and we don't want to put free
7 enterprise and public policy in conflict at this
8 hearing.

9 We say that, if the Commission elects as
10 public policy to maintain a 25-cent call and you can be
11 profitable at that level, then we can be profitable at
12 that level. And that will be the level we'll both work
13 at.

14 However, we want to participate in the same
15 revenue stream. We want to have -- we want U. S. West
16 to bear the same cost burdens that we bear in the
17 marketplace so there is equity.

18 BY MR. SHAW:

19 Q. Let me go back to my question and then ask
20 you about the PAL line:

21 Out of this proceeding, you want the
22 Commission to lower the PAL line charges to your
23 company by U. S. West?

24 MR. HARLOW: We're getting into an area here
25 where, again, I object to the form of the question. I

1 think it's unfair for Mr. Shaw to be characterizing Mr.
2 Coulson's testimony without referring him to the page
3 and line that he has in mind when he is asking for what
4 Mr. Coulson's recommendations are. I think this is
5 unfair to the witness, and Mr. Shaw should focus the
6 witness's attention to the testimony he has in mind.

7 MR. SHAW: There is no such requirement,
8 your Honor. This association brought a very broad
9 gauge complaint against U. S. West alleging in a very
10 broad and general way that its rates and its practices
11 were unfair, unjust, and unreasonable and asking this
12 Commission to exercise its jurisdiction to make the
13 Company's rates and practices fair, just, and
14 reasonable.

15 Since they have brought a complaint against
16 the rates and since this is the only association
17 witness, they must have had something in mind when they
18 brought this complaint rather than just throw it up
19 against the wall and see what sticks.

20 I think I'm totally entitled to ask if this
21 association wants this Commission to order U. S. West
22 to lower its PAL line rates to the association.

23 MR. HARLOW: As Mr. Coulson stated on Page 4
24 of his testimony beginning at Line 11, "Doctor Cornell
25 has prepared testimony for the Northwest Payphone

1 Association as an economic expert on how the rates and
2 practices of U. S. West affect the payphone market. I
3 do not have the training or experience to give an
4 economic opinion about U. S. West's rates and
5 practices."

6 And then he goes on to state that the
7 purpose of his testimony is to explain the practical
8 impact of U. S. West's rates and practices on his
9 industry. He does not state in response to that
10 question that his testimony is to cover the relief
11 requested by the payphone company.

12 So, unless Mr. Shaw will direct him to some
13 specific recommendations and then later on there are
14 some specifics such as the area Mr. Shaw crossed on
15 earlier with regard to the elimination of the tariff
16 requirement of one PAL per telephone, Mr. Shaw can
17 direct Mr. Coulson to a specific like that, I think the
18 witness can answer it when he is asking a general
19 question about the testimony, about the scope of his
20 testimony given the caveat.

21 THE COURT: I'm going to overrule the
22 objection. I don't believe that Mr. Shaw has asked for
23 an economic analysis backing whatever requests are
24 being made by your clients, Mr. Harlow.

25 I think that this witness should certainly

1 be aware of what requests the Complainant is making in
2 this case, and I find the question perfectly
3 appropriate.

4 Sir, are you requesting that?

5 THE WITNESS: Could we start again, Mr.
6 Shaw, so I can get on track with you?

7 THE COURT: The question is, I believe,
8 whether you were asking the Commission to lower the PAL
9 line rates.

10 THE WITNESS: Not specifically to lower the
11 PAL line rates to a specific number. What we are
12 asking is that U. S. West impute the same charges to
13 their operation that they impute to us. Then we can
14 look at their profitability and see if those rates are
15 fair. If they can operate at a profit at that same
16 cost structure, then we are fair.

17 We do not believe that this can be the case,
18 and, therefore, there are inequities, and we would like
19 to address those inequities. And our consultant that
20 we have hired has the methodology, if you would.

21 I can give you an example of the
22 appropriate. We have just all gone through the recent
23 EAS hearings. EAS was excellent public policy. And I
24 know a lot of people personally who think that it's one
25 of the greatest things that's been done here in a long

1 time.

2 However, good public policy isn't always
3 good business from our point of view. This EAS
4 converted what we would receive a dollar call to a
5 quarter. EAS increased the geography of the monopoly.
6 For now I can't give this traffic to the interexchange
7 carrier. It is committed to U. S. West. And I pay
8 their rates and their six-cent charge.

9 So, it has impacted my profitability. And
10 yet the proposals that come across my desk say that I
11 also get my basic rate increased because of the
12 extended area.

13 Now, had we been in an arena where costs
14 when they are tariffed like this, U. S. West would look
15 at their coin operation, see that unfairness, and come
16 to the Commission with an exception, we would all be
17 very happy.

18 In this particular instance, it impacts my
19 business greatly, and there is no offsetting mechanism.

20 That's what we would look at when we say
21 imputation: imputation of costs to their operation so
22 that we both are impacted the same manner. It didn't
23 work out that way, and it doesn't work out that way in
24 many instances, and this is why we approach from the
25 point of fairness because we believe that was unfair.

1 Good public policy, but from our point of view -- and
2 I'm certain from U. S. West's point of view on the coin
3 side -- it really wasn't fair in good business.

4 BY MR. SHAW:

5 Q. When this Commission determined in the
6 public interest to require more EAS routes be offered
7 in the state of Washington, is it your testimony that
8 at the same time they should have cut the PAL rate to
9 you to make up for the lost traffic that you suffered?

10 A. If the viability of the monopoly public
11 payphone business depends on profitability and a
12 contribution to the whole, then, of course, adjustments
13 would have had to have been made on that side to
14 protect that profitability.

15 No such adjustments were made to the best of
16 my knowledge.

17 Q. Have you presented any evidence to the
18 Commission that the conversion of toll to EAS has made
19 Digital an unprofitable company?

20 A. I have no intention of conveying the
21 impression that that ruling made me unprofitable. I
22 said it impacted my profitability.

23 Q. Is there any requirement by this Commission,
24 to your knowledge, for U. S. West to impute anything to
25 itself for its costs of EAS service?

1 A. I'm very certain that there was a broad
2 study as to the impact of EAS on U. S. West's revenue.
3 I am uncertain if they looked specifically at the
4 impact on their coin operation. And it would be
5 different than it would be in the standard residential
6 or business environment. They move in different
7 directions.

8 Q. Let's try it this way, Mr. Coulson: Toll
9 carriers and payphone providers compete with U. S. West
10 for toll revenues, do they not?

11 A. Yes.

12 Q. IntraLATA?

13 A. _ Yes.

14 Q. If the Commission decides to classify toll
15 service as local service, there is no requirement that
16 U. S. West impute any kind of PAL line charges or
17 carrier access charges to its EAS services, is there?

18 A. No.

19 Q. Likewise, there is no requirement for U. S.
20 West to impute any kind of access costs that other
21 providers might pay for any kind of local service in
22 the state of Washington, is there?

23 A. Not for local service.

24 Q. When you charge a customer that walks up to
25 your payphone a quarter to call intraexchange, are you

1 providing that person a local call?

2 A. When I allow that person to make an
3 intraexchange call? If it's within the local calling
4 area, yes.

5 Q. If that person makes an EAS call, is that
6 person making a local call?

7 A. Yes, it would be.

8 Q. Is it your testimony that this Commission
9 for the first time should require a local exchange
10 company to impute to itself some sort of access charge
11 that another local calling company like yourself pays
12 for its pricing of local calls?

13 A. Impute to itself an access charge, Mr. Shaw?

14 Q. Yes. Do you know what "imputation" means, Mr.
15 Coulson?

16 A. Yes, I do. But I'm very uncertain as to how
17 you apply it in this question.

18 Q. Both U. S. West and Digital provide local
19 payphone calling service, do they not?

20 A. Digital provides the instrument that allows
21 access to the public network. We do not provide the
22 transport. Therefore, access is a matter -- I provide
23 the gate, and you're the path. And you provide both
24 the path and the gate. We're a little different.

25 Q. From the customer's standpoint, do you

1 provide precisely the same thing that U. S. West does
2 for a quarter from a payphone?

3 A. The end user would see little difference.

4 Q. No difference at all?

5 A. No difference at all in most cases.

6 Q. Put a quarter in the phone, make a local
7 call, except one of your sites might time it out and U.
8 S. West doesn't time it out. Isn't that correct?

9 A. Yes, that would be correct.

10 Q. So, those two companies, Digital and U. S.
11 West, are competing with each other to provide local
12 service through a payphone. Is it your testimony that
13 U. S. West should impute to itself your access charge
14 that you pay for access to the network?

15 MR. HARLOW: I'm going to object to the term
16 access charge as being rate. Are you talking about the
17 metered rate, Mr. Shaw? Are you talking about some
18 kind of access charge like interexchange carriers pay?
19 Or something totally hypothetical? I don't understand,
20 and I don't think the witness does either.

21 THE COURT: Mr. Shaw?

22 BY MR. SHAW:

23 Q. Mr. Coulson, do you understand what I mean
24 when I say access charge?

25 A. It can be defined in many different ways.

1 You charge access every time there is a switched
2 access, for example. This is not part of my business
3 nor my revenue stream, and it would have no part of
4 imputation other than I feel that we should perhaps
5 share in that regard.

6 So, access could be more clearly defined.
7 It would be helpful, Mr. Shaw.

8 Q. When you subscribe for local telephone
9 service, do you buy an access line from U. S. West so
10 you can access the network?

11 A. Without competition in the local loop, it's
12 not a matter of I purchase and U. S. West provides. I
13 have no alternative but to connect in that manner.

14 Q. And when you're operating a public payphone
15 service, you buy an access line to connect to the local
16 network; correct?

17 A. Yes, sir.

18 Q. For local telephone service, are you
19 requesting the Commission to require imputation of
20 local access to itself and its setting of its local
21 service rates?

22 A. It's very ambiguous. By imputation I mean
23 that U. S. West would charge its own monopoly payphones
24 at the same rate that I am charged for a PAL line and
25 charge themselves the same six cents that I pay for all

1 calls over 300 and charge themselves for the fees that
2 I pay for screening and blocking all of the products
3 that I must use from the monopoly side.

4 If U. S. West would impute those same costs
5 to their operation, then we would know whether that
6 service were being provided at a loss as public policy
7 or as a profit as it should be to the total of U. S.
8 West.

9 Without that imputation, it becomes a very
10 uncompetitive marketplace out there because we do not
11 come from the same place on the cost side of our
12 business.

13 However, public policy says \$.25 for a local
14 call. So, my income potential is capped by
15 competition, and yet I'm forced to come from a
16 different cost base.

17 This is what we want to get straight.

18 Q. From that answer I take it all that you are
19 asking this Commission to do is to examine the costs
20 and see whether or not current revenues from local coin
21 service cover costs, including imputed access charges
22 --

23 MR. HARLOW: Just a second. I'm going to
24 renew my objection.

25 THE COURT: Had you finished your question?

1 MR. SHAW: No, I hadn't finished my
2 question.

3 MR. HARLOW: I didn't mean to interrupt.

4 THE COURT: Wait until the question is
5 finished and we discuss the objection.

6 Go ahead, sir.

7 MR. SHAW: Let me start over.

8 THE COURT: Please.

9 BY MR. SHAW:

10 Q. From that last answer, Mr. Coulson, I take
11 it that all that you are asking this Commission to do
12 is to study the costs of U. S. West, including imputed
13 access charges and other monopoly inputs that you feel
14 you have to buy from us, and then decide whether or not
15 the public interest requires U. S. West to increase its
16 prices or decrease its access charges; is that correct?

17 MR. HARLOW: Thank you, Judge.

18 THE COURT: State your objection and the
19 basis for it.

20 MR. HARLOW: The objection is that this is
21 outside the scope of the witness's direct. Doctor
22 Cornell has conducted such studies subsumed in Mr.
23 Shaw's question. She has done so through her ability
24 to have access to confidential information produced in
25 the discovery process.

1 Again, we're getting into an area where it's
2 outside the area of the witness's expertise and direct
3 testimony. But this witness as an employee of one of
4 the parties to this case is not entitled to be an
5 expert witness and, therefore, has not had access to
6 the confidential cost data that's been analyzed by
7 Doctor Cornell.

8 THE COURT: Once again, Mr. Harlow, I don't
9 believe that Mr. Shaw has asked for the basis behind
10 those recommendations or what the witness is asking or
11 what your clients are asking.

12 I would like to hear as much as I can from
13 this witness about what they are requesting. And then
14 if he refers the basis for those requests to Doctor
15 Cornell, so be it. But I don't believe that that would
16 mean that this witness could not answer the question.

17 MR. HARLOW: I think it's difficult for the
18 witness to really give a full and complete answer
19 without his knowing the numbers.

20 THE COURT: Let's have him give what he can
21 give. I'm not suggesting that the confidentiality be
22 breached in any manner. But I would like to hear the
23 answer to the question, sir.

24 THE WITNESS: Your Honor, Mr. Shaw, if I
25 understand your question, you say is this all that the

1 Northwest Payphone Association is asking of the
2 Commission to impute costs equally to U. S. West so
3 that we can determine a true cost basis from which to
4 operate?

5 No. And, in fact, that is secondary in our
6 petition. Our primary concern is the day-to-day
7 relationship that exists between the Northwest Payphone
8 Association members and U. S. West. This is equally as
9 important an aspect of this as the financial aspects.

10 We feel that we cannot compete financially
11 nor can we compete successfully for these sites when
12 better rules do not exist between us.

13 And so consequently we are in a very, very
14 antagonistic relationship out there that benefits not
15 at all to anyone including the public interest.

16 BY MR. SHAW:

17 Q. Well, that's very interesting, Mr. Coulson.
18 Let me follow up on what you just said: that the
19 association is not that concerned that the Commission
20 adopt imputation costing for public telephone service.

21 Am I to understand, then, that that is not
22 the primary objective of this complaint, to convince
23 the Commission to do that and either raise U. S. West's
24 prices or lower your access charges?

25 MR. HARLOW: Object that the question

1 misstates the witness's testimony.

2 THE COURT: Let the witness correct that if
3 it does so misstate his testimony. I would like to
4 hear the responses of the witness, please, Mr. Harlow,
5 sir.

6 THE WITNESS: Mr. Shaw, you said that the
7 financial aspects of it were of a lesser interest. I
8 said the primary interest. I did not mean that to
9 diminish the financial aspect of it.

10 Both of them address the issue of fairness.

11 BY MR. SHAW:

12 Q. Let me go back to my question: Based upon
13 your previous answers, I take it you only want the
14 Commission to examine whether or not U. S. West's
15 prices should be increased or its access charges to you
16 lowered?

17 A. Again, I can only restate my previous
18 answer. Our goal to put us on par on the cost side of
19 the business so that we both come from the same
20 starting point. That's the financial aspect of it.

21 How this is accomplished, whether it's
22 increased income or decreased expense, is a matter to
23 be yet determined. And it involves public policy that
24 I'm not prepared to speak to.

25 Q. You do not believe yourself to be a

1 telecommunications company, if I understand your
2 previous discussion. Is that correct?

3 A. That would be very correct, yes. We are a
4 provider of customer equipment.

5 Q. You put yourself on the par of Sears Roebuck
6 selling telephones to members of the public?

7 A. Not on par because we take a deeper
8 responsibility to it.

9 Q. Do you think you should be treated by this
10 regulatory Commission in exactly the same way as Sears
11 Roebuck selling customer premises equipment?

12 A. I don't believe that to be an accurate
13 analogy. That's not the way that I feel. I feel that
14 we should be treated and viewed upon as an offerer of a
15 service to the public just as U. S. West is.

16 Q. Then the issue before the Commi_sion, if you
17 consider yourself a telecommunications company, is the
18 interconnection charges between your telecommunications
19 company and U. S. West's telecommunications company?

20 MR. HARLOW: Objection. Assumes a fact not
21 in evidence. As I understand the question, you're
22 presuming that he is a telecommunications company when
23 he just testified three questions ago that he didn't
24 consider Digital Access to be a telecommunications
25 company.

1 THE COURT: Mr. Shaw?

2 MR. SHAW: Perhaps I misunderstood you.

3 BY MR. SHAW:

4 Q. You do not consider Digital to be a
5 telecommunications company; correct?

6 A. No. MCI is a telecommunications company.
7 Sprint is a telecommunications company. AT&T is a
8 telecommunications company. I certainly am not, sir.

9 Q. If a company installed a central office in
10 downtown Seattle and invited members of the public to
11 walk up to that central office and place calls in
12 downtown Seattle, would that be a telecommunications
13 company?

14 A. Are you saying if someone installed a
15 central office?

16 Q. Yes.

17 A. And invited the public to come into it?

18 Q. Yes.

19 A. I find it difficult to answer that because
20 in today's environment the monopoly companies are the
21 only ones that can install a central office, if you
22 would. A PBX or something of that nature brings us
23 several steps removed from the monopoly companies. And
24 there is other opportunities that present themselves
25 there.

1 Q. Is it your belief that local telephone
2 service is a monopoly in the state of Washington that
3 only local exchange companies can provide?

4 A. Local telephone service? Yes, sir.

5 THE COURT: Can you estimate how much more
6 you have, Mr. Shaw?

7 MR. SHAW: About a half an hour.

8 THE COURT: Thank you.

9 BY MR. SHAW:

10 Q. Do you want this Commission to require U. S.
11 West to pay you commissions if your customers use
12 intraLATA toll services of U. S. West?

13 A. If we use toll services of U. S. West, we
14 feel very strongly that U. S. West should be
15 competitive for that service. We do not receive
16 commissions from our other carriers as we explained
17 before, nor would we expect U. S. West to pay us
18 commissions for that type of traffic.

19 However, we would expect U. S. West to
20 respect us as a very significantly large customer and
21 bring us rates that are competitive.

22 Q. Are you asking this Commission to order U.
23 S. West to discount its intraLATA toll service to you?

24 A. That is a decision that's up to them. All I
25 can say is I can't afford to use your services because

1 they are not competitive. You come to me and say that
2 you want my intraLATA business. And I have to say then
3 bring me a competitive offer.

4 Now, if that means that you, U. S. West,
5 must go back to the Commission and ask for a change in
6 the tariff, then so be it.

7 Q. Are you complaining against U. S. West's
8 intraLATA toll tariffs in the context of this
9 complaint?

10 A. No, sir. I was just explaining why I don't
11 use their services.

12 Q. Do you wish this Commission to require U. S.
13 West to pay you commissions if your customers use U. S.
14 West's operator services?

15 A. I think it would be in everybody's best
16 interests had this been available to us from the onset.
17 It created distortions in the marketplace that really
18 need not be there.

19 Q. By that answer are you saying that, if the
20 Commission would order U. S. West to pay you
21 commissions if your customers use U. S. West's operator
22 services, that you and all the members of your
23 association will only use U. S. West's operator
24 services?

25 A. You're asking me to make a commitment to do

1 something without adequate information in front of me.
2 It would again depend on what the parameters were, the
3 profitability was. A great many things would apply.

4 We originally left U. S. West operator
5 services, not predominantly because of profitability,
6 but it was the treatment that we were receiving from U.
7 S. West operators. And this forced us to seek a safe
8 haven. The operators were abusive to the end user.
9 They would direct the end user to go into the site
10 provider and complain if they had a problem instead of
11 directing the problem to us.

12 A great many things existed at that point in
13 time that brought out the need to seek operator
14 services elsewhere, not the least of which, of course,
15 was income, which you were unable to share.

16 But at the same time, you were making these
17 revenues available through your coin operation to pay
18 commissions to the site provider. We felt at that
19 time, if you're going to share with the site provider,
20 why not us?

21 Q. You pay commissions to site providers. You
22 pay rent for your sites for your phones, do you not?

23 A. Yes, we do.

24 Q. And you measure those rents by a percentage
25 of the revenue that the phone generates; correct?

1 A. That's correct.

2 Q. Exactly the way U. S. West pays rent to site
3 providers; correct?

4 A. No, not exactly. There still remains this
5 problem of imputation. We share our profits with the
6 site. In order to say that we do the same thing that
7 U. S. West does, U. S. West must show that they have
8 profitability to share.

9 Q. Directing you back to the question, you pay
10 commissions to site providers as measured by the
11 revenues the phone generates, exactly the same way U.
12 S. West does. Isn't that correct?

13 A. Again, I must come back to the exactly the
14 same way. Yes, we pay in the same currency, if you
15 would.

16 Q. You do not earmark revenues to give to site
17 providers, do you? You measure the amount of the
18 compensation you pay site providers by the amount of
19 revenue the phone generates; correct?

20 A. After our line of profitability has been
21 met, yes.

22 Q. In your contracts between you and your site
23 providers, it states that you will not pay rent for the
24 site unless the phone is profitable?

25 A. It's not stated in those specific terms.

1 However, with Digital we use a sliding scale
2 commission, an increasing percentage of the gross
3 income. This helps to protect our underlying expense,
4 and it ultimately resorts -- and we're paying from our
5 profitability.

6 Q. You are asking this Commission, I take it,
7 to order U. S. West to run its public payphone service
8 as a separate line of business; is that correct?

9 A. Again, I think that's a little overbroad or
10 too specific. We have asked that either through
11 separate accounting or separate subsidiary you
12 determine your profitability, and we can all use that
13 as a basis to operate from.

14 Q. Again, getting back to then what you want
15 this Commission to do, you want this Commission to take
16 a look at U. S. West's profitability in its public
17 payphone service and then decide if the public interest
18 requires changes in U. S. West's rates? Is that
19 correct?

20 A. To the extent that it establishes equality
21 in the pricing, yes.

22 Q. Do you want this Commission to order U. S.
23 West to take out phones which you consider to be
24 unneeded by the public?

25 A. We are not asking the Commission to make any

1 such determination. It's a business decision on the
2 part of U. S. West to establish whether or not it's
3 profitable and then make the adjustments necessary
4 where it becomes a contributor to the profit of U. S.
5 West in general.

6 Q. Do you agree that for all the years that U.
7 S. West offered public telephone service prior to the
8 time your company and companies like you coming along
9 it was never considered a separate line of business by
10 this Commission?

11 A. Up until the time that competition was
12 allowed in this particular segment of the market, I
13 doubt seriously if it was a concern.

14 Q. And so what you are arguing to this
15 Commission, I take it, is that, when competitors come
16 along and wish to compete with a segment of the local
17 telephone business, that segment should be operated as
18 a separate line of business as a matter of public
19 policy; is that correct?

20 A. If public policy is established that allows
21 competition in this marketplace, yes. And we feel that
22 in pricing and such there should be some doctrine of
23 fairness that allows us to compete on an even footing.

24 Q. Did you consider rather than bringing a
25 complaint against U. S. West simply approaching this

1 Commission and asking them to undertake an inquiry for
2 rulemaking --

3 MR. HARLOW: I'm going to object.

4 MR. SHAW: May I finish the question first_

5 MR. HARLOW: Sure.

6 BY MR. SHAW:

7 Q. -- to change the way pay telephone service
8 has long been provided in this state?

9 THE COURT: Sir?

10 MR. HARLOW: I must object to the extent
11 that Mr. Shaw is asking for when he talks about
12 considerations, he is talking about confidential
13 communications between the attorney and client.
14 Hopefully he is not seeking to have Mr. Coulson breach
15 those confidences. But I would ask that Mr. Shaw limit
16 his question. Otherwise I would have to object that
17 those discussions are protected by the attorney/client
18 privilege.

19 THE COURT: I assume that part of what you
20 are trying to convince the Commission of today, Mr.
21 Harlow, is that the approach that you are suggesting is
22 the best way to remedy what you perceive is a problem.

23 It occurs to me that one of the ways to do
24 that would be to indicate if there were other things
25 that you considered in addition to this complaint. And

1 I would hope that -- it seems to me that answering that
2 question would be in your client's best interests.

3 I don't know what kind of caution you're
4 giving him. But it would seem to me that one of the
5 manners of doing that would be to explain what else was
6 considered and why that was rejected. So, I hope that
7 your client will be answering that.

8 BY MR. SHAW:

9 Q. Do you recall the question, Mr. Coulson?

10 A. I would appreciate it if you would back up
11 and start again, Mr. Shaw.

12 Q. Yes. You and your association -- I'm not
13 asking you to discuss your conversations with your
14 lawyers -- but did you and your association consider
15 that a good way to change historical public policy as
16 administered by this Commission would be to approach
17 the Commission directly to petition for a proceeding,
18 notice of inquiry, or a rulemaking rather than file a
19 complaint against just one of the local exchange
20 companies?

21 A. A great many things were considered and over
22 a long period of time before this action was brought:
23 discussions, attempts at discussions, requests that
24 were ignored.

25 We came to a point where we believed in

1 order to really address the level playing field issue
2 that we had to bring with emphasis our problems and
3 make them very visible because they were not being
4 addressed through any other medium that we had tried.

5 Q. Are you familiar with the Commission's
6 pending rulemaking on open network architecture or ONA?

7 A. I am familiar with the concept. Whether it
8 is in the rule process, I am not.

9 Q. Have you approached the Commission about
10 extending the concept of open network architecture to
11 local payphone telephone service?

12 A. Because of the fact that it was -- this
13 action was already in process, it was our intention to
14 bring that into the issue if it were appropriate.
15 However, from the preliminary information that we have
16 gained and in particular Mr. Lanksbury's testimony, in
17 Utah, his testimony there reflected that the open
18 network architecture is something that would be a year
19 in the development. And the whole package of services
20 would be a year going through the Commission process.
21 And so anything or nothing would be forthcoming for a
22 period of up to two years.

23 This same problem has been addressed at the
24 Federal level. And the Federal approach to it was,
25 yes, it's going to take time to develop this

1 architecture. However, in the interim, the competitive
2 payphone provider is due compensation. And they worked
3 out an interim compensation schedule.

4 We had hoped that would be the case as a
5 natural attrition all the way down into the line and
6 into the intraLATA marketplace. From Mr. Lanksbury's
7 testimony, it would appear that, no, in fact, it's when
8 we get to it.

9 We would like to see something come out of
10 that whereby we are compensated for the traffic that we
11 now generate without compensation and to have some
12 interim relief proposed to us.

13 However, the proposal as we saw it was
14 really when we get around to it. If we were given
15 relief on an interim basis, I think U. S. West would
16 expedite their development process and try to bring
17 that to fruition a little bit quicker.

18 THE COURT: Could you work at focusing your
19 answers on the questions being specifically asked? I
20 find that it's getting broader and broader.

21 THE WITNESS: ONA is very broad.

22 THE COURT: Go ahead, Mr. Shaw.

23 BY MR. SHAW:

24 Q. Mr. Coulson, the FCC has not ordered local
25 exchange companies to provide any compensation to

1 payphone providers, has it?

2 A. It applies to interexchange carriers.

3 Q. The Commission, the FCC, that is, has
4 indicated that carriers who receive 10 XXX dial-around
5 traffic from companies like yourself need to pay
6 companies like yourself an amount of money for the
7 receipt of that traffic. Is that what you referred to
8 in your last answer?

9 A. Yes.

10 Q. U. S. West is not an interexchange carrier
11 that has a 10 XXX access code, is it?

12 A. That's right.

13 Q. The FCC in no way has required U. S. West to
14 pay compensation to companies like yourself; correct?

15 A. That's correct.

16 Q. But before this Commission, you're asking,
17 in effect, this Commission to order local exchange
18 companies in the state of Washington to pay firms like
19 yourself compensation when they steer business to the
20 local exchange company; is that correct?

21 A. We are only asking that this issue be part
22 of the overall study of imputation. It involves
23 revenue streams which you have access to that we do
24 not and, therefore, contributes more to the imbalance
25 that exists between us.

1 Q. Are you asking this Commission to order U.
2 S. West to pay compensation to hotels, motels,
3 hospitals, and other large entities that aggregate
4 traffic and turn that traffic over to selected
5 carriers?

6 A. Mr. Shaw, we are not asking this Commission
7 to take any such specific action, nor am I familiar
8 with the problems that might exist in those industries.

9 Q. You understand, do you not, that under the
10 Commission's current rules you're considered a call
11 aggregator just like a hotel?

12 A. I have heard that terminology used. We are
13 similar, but there are dissimilarities as well.

14 Q. The big dissimilarities is you hold yourself
15 out to the public to provide telephone service. Isn't
16 that correct?

17 A. I don't believe so. The dissimilarity that
18 I was speaking to was in the way that the same call is
19 charged, and in particular the operator service
20 provider piece.

21 In the hospitality industry, that call co_ts
22 -- and the costs that they apply to both my business
23 and the hospitality business -- but the hospitality
24 business puts a surcharge on the room bill instead of
25 on the phone bill. The hospitality service takes its

1 line access charges and prorates them out with the room
2 rate.

3 So, a lot of the costs associated with that
4 call are indirect to the end user. They do not appear
5 on his phone bill. But nonetheless he is paying them.

6 Q. And you believe that end users should pay
7 the rates charged by the AOS companies; correct?

8 A. I believe the end user should pay a fair
9 price for the service that he receives and still allow
10 the opportunity for the provider of that service to
11 profit.

12 Q. Do you wish this Commission to order U. S.
13 West to lower its billing and collection rates to AOS
14 companies?

15 A. The billing and collection rates are a
16 significant contributor to the cost of that call. And,
17 yes, in fact, I believe we would be more on par in that
18 arena if you, U. S. West, would charge itself the same
19 rate that it charges the operator service provider. I
20 think it would take some of the distortions out of the
21 pricing.

22 Q. So, you wish this Commission to order U. S.
23 West to not only impute PAL line rates to its coin
24 phone operations, but to impute billing and collection
25 rates to its operator services? Is that correct?

1 A. Hopefully that would be the case. Now, when
2 you charge \$.30 to bill and collect a local call, that
3 should cover your costs. If it does not, then this is
4 one of the distortions that we need to look at.

5 Q. Is billing and collection a service that an
6 operator services company can only get from U. S. West?
7 Is that your testimony?

8 A. No, sir, that's not my testimony. That is
9 the method that they elect to use because it is the
10 most, well, productive, if you would.

11 Q. Operator service companies like to use local
12 exchange company billing and collection so that end
13 user consumers think it's part of the phone bill; is
14 that correct?

15 A. There have been very clear distinctions put
16 out where you have a separate page titled with the
17 service provider to make the consumer very aware that
18 this is not part of his phone bill.

19 However, I do believe, just from my own
20 point of view, that the rate of collection is higher
21 when it's presented with the U. S. West phone bill
22 because of that perception of the public and the
23 historic attitude that I have to pay my phone bill.
24 This I do believe is a dominant factor in their
25 election to use the LEC billing and collection services

1 even though they are more expensive.

2 Q. On that basis, you want this Commission to
3 order U. S. West to lower its billing and collection
4 charges to AOS companies?

5 A. No. We ask that those charges be imputed to
6 the coin side of the business just the same way as it
7 is in ours. Our rates are driven partially by that
8 cost. And we would like to see that same cost drive
9 the monopoly side of the business. Otherwise somebody
10 is paying for it. Where is it coming from? We would
11 like to see it generated from the coin box or from the
12 service provided the same as we do.

13 Q. Do you want this Commission to separate coin
14 services into two classifications: Public interest
15 phones that are not considered competitive and all
16 others that are considered competitive and subject to
17 provision by anyone?

18 A. The public policy phones are --

19 THE COURT: Why don't you start with a yes
20 or no, sir, and then explain your answer. Is that one
21 of the things you're asking?

22 THE WITNESS: No.

23 THE COURT: Then why?

24 THE WITNESS: The public policy phones are
25 an area that need to be addressed, and they need to be

1 addressed from both sides or collectively between us.

2 This has been worked out very well in other
3 areas where there is good cooperation between the
4 monopoly side and the competitive payphone providers.

5 California is an excellent example of this.
6 They have -- everybody contributes per PAL line a set
7 amount that is pooled, made available to support public
8 policy payphones where the Commission deems them
9 appropriate. This is used to make them profitable,
10 support their needs, and make them as profitable as a
11 stand-alone profitable center.

12 It's an equitable solution. Everybody pays
13 and everybody shares. It answers the need, the need
14 that -- the biggest answer has to be definition. Now,
15 originally, Pacific Bell brought forth 80,000 public
16 policy phones. Further analysis showed that they had
17 misunderstood public policy and profitability. There
18 are a lot of non-profitable phone that are not public
19 policy.

20 The final winnowing out process boiled down
21 to a little over 1100 phones out of Pac Bell's 160,000.

22 So, public policy is important. But the
23 size of it is such that it can be easily managed by an
24 appropriate program.

25 They also brought forth in this same

1 additional revenue on a PAL line that monies would be
2 set aside for self enforcement. Self enforcement there
3 is administered by the Commission and the Staff. And
4 it is paid for out of these funds. It is no burden to
5 the Staff. And it works very, very well. And it
6 creates an extremely harmonious working relationship.

7 This is what we would like to enjoy here.

8 BY MR. SHAW:

9 Q. From those past answers, you have in mind a
10 California proceeding that you wish this Commission to
11 mimic in the context of this complaint; is that
12 correct?

13 A. I'm only pointing to a blueprint that is in
14 place and successful and would be a good thing to
15 emulate or to adjust to our own needs, but it's a very
16 good starting point.

17 Q. The order that the Commission issues in this
18 complaint, do you wish the Commission to order a
19 process like you believe has been adopted in
20 California?

21 A. Yes, partially. We want to establish the
22 public policy area. We want to be able to define it
23 and deal with it.

24 The self enforcement aspect that I addressed
25 is something that is forthcoming from our association

1 to the Staff independent of this action.

2 Q. Are you aware of the Commission orders in
3 this state that find that each and every payphone,
4 absent evidence to the contrary, is a monopoly service?

5 A. I'm not aware of any rule that says each and
6 every payphone is a monopoly service.

7 Q. Are you aware of the orders issued by this
8 Commission that decline to classify as competitive AOS
9 payphones on the basis that those payphones, each and
10 every one of them, is a monopoly location?

11 A. I'm not exactly clear as to what you're
12 referring to, Mr. Shaw. You say a monopoly payphone
13 and AOS. Could you help me?

14 Q. Let me try it this way and see if you are
15 aware: Are you aware that AOS companies operating
16 through payphones have been given a competitive
17 classification by this Commission on the basis that
18 each of the payphone locations through which their
19 services were offered is a monopoly location?

20 A. All right. I misunderstood your term
21 monopoly. I do believe it's captive, if you would?

22 Q. Yes.

23 A. I look at monopoly as being U. S. West. I'm
24 sorry. It's semantics.

25 I am aware of it. In fact, I gave testimony

1 in that proceeding. I wasn't aware that a final rule
2 has been established. Not to my knowledge.

3 Q. Are you asking in the context of this
4 complaint against U. S. West that the Commission
5 reverse its policies as expressed in those orders?

6 MR. HARLOW: Mr. Shaw, I'm going to object.
7 I don't think you have yet established sufficient
8 foundation that the witness is that familiar with the
9 orders. It's evident from Mr. Coulson's last testimony
10 that he is referring to the currently ongoing
11 International Pacific case. And although you haven't
12 named the order, from our prior discussions I believe
13 you're talking about the order in the 1989
14 International Pacific case.

15 I think that answer demonstrates the witness
16 isn't really focusing on the order you are.

17 THE COURT: What orders did you have in
18 mind, Mr. Shaw?

19 MR. SHAW: Excuse me a moment, your Honor.
20 I seem to have misplaced them.

21 MR. HARLOW: Are you referring to
22 U-892744-P, Mr. Shaw?

23 MR. SHAW: Your Honor, I am referring to the
24 second supplemental order of July 1990 in docket
25 U-892603-P and consolidated dockets.

1 THE COURT: With that reference, can you
2 answer the question?

3 THE WITNESS: I have no knowledge of that --

4 THE COURT: All right.

5 THE WITNESS: -- proceeding.

6 THE COURT: How much more do you have, Mr.
7 Shaw?

8 MR. SHAW: That's just about it, your Honor.

9 BY MR. SHAW:

10 Q. One clarification question, Mr. Coulson:
11 Early in morning you talked about store and forward
12 phones. Do you recall that?

13 A. Yes.

14 Q. You demonstrated this morning a store and
15 forward phone?

16 A. The phone has that capacity. It's a
17 software capacity. It's one that Digital does not
18 utilize.

19 Q. In your earlier testimony you seemed to
20 think that a store and forward phone was a
21 telecommunications service as opposed to a phone that
22 was not store and forward.

23 Do you recall that testimony?

24 A. Yes. But I don't recall my -- that
25 terminology. The store and forward phone was more

1 classified as a provider of operator services because
2 of its unique capabilities. And, therefore, they were
3 requested to file tariffs.

4 Q. For the record, will you state what a store
5 and forward phone is, please?

6 A. A store and forward phone is one that is
7 capable of taking the customer's operator assisted or
8 charge dialing instructions, storing that information
9 in the phone, redirecting the call as a One Plus call,
10 and setting the rates for that call in the phone.

11 So, therefore, it is rating the call as well
12 as changing the nature of the call and is providing a
13 service at a far higher level of interface. But I
14 wouldn't say that changes its classification only in
15 the fact that because it's setting rates.

16 It filed the rates with the Commission so
17 that it's public knowledge.

18 Q. When you establish a rate of four minutes
19 for a dollar for an intrastate toll call, are you
20 establishing rates?

21 A. I believe you would -- you could classify it
22 as establishing rates. However, because they were
23 below the prevailing rates, we didn't feel it would be
24 necessary to register and make the public aware. Our
25 advertising does that.

1 Q. Is it your belief that a telecommunications
2 company is excused from registering and filing tariffs
3 if its rates are less than prevailing rates charged by
4 other telecommunications companies?

5 A. Could you define telecommunications company?
6 I think we went through this, and I don't consider
7 myself one. So, I don't know how to apply that.

8 I did not believe -- stop me if I'm wrong --
9 that it would be necessary to come through the filing
10 process and everything else to notify that we have very
11 competitive rates as to the dominant carrier rates.

12 Dominant carrier rates are what we're always
13 asked to emulate. And when I'm coming below dominant
14 carrier rates, I really think that this is market
15 forces involved, and the Commission should bless the
16 action rather than try to regulate it.

17 This is where we all want to go.

18 Q. I take it that this testimony is on behalf
19 of your entire association?

20 A. I don't know of anyone who ever raised the
21 question about coming in and filing on this dollar per
22 call. It was made known at the Staff level.

23 MR. SHAW: Thank you. That's all I have.

24 THE COURT: All right. Why don't we take
25 our afternoon recess before we take the Commission

1 Staff's cross. Let's be back at 3:15, please.

2 (Recess.)

3 THE COURT: All right, let's be back on the
4 record after an afternoon recess.

5 Ms. Brown?

6 MS. BROWN: Thank you.

7

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

9 BY MS. BROWN:

10 Q. Mr. Coulson, I would like to direct your
11 attention to your testimony at Page 16, please. In
12 three different places on the page, you make reference
13 to rates and surcharge items either being eliminated or
14 coming down.

15 On Line 4 you state that in the long-term,
16 competitive providers will no longer need to rely on
17 rates and surcharges that are higher than U. S. West's.
18 And then again on Line 10 you state that you expect
19 eventually to see surcharges disappear for the most
20 part.

21 And again at Line 15 you testify that you
22 were concerned that surcharges cannot be sustained
23 indefinitely.

24 Is it your opinion that, if you are
25 successful in this complaint pending before the

1 Commission, that the rates charged by your company and
2 others of Northwest Payphone Association will come
3 down?

4 A. That is correct. Every time there is an
5 improvement in our costs, we look to that surcharge
6 because we know it is of necessity it's there.
7 However, it is not something that the consumer will
8 tolerate long-term, and we want to be out from under it
9 as quickly as possible.

10 However, we want to be in a position where
11 we're competing against a competitive surcharge that is
12 based on true costs. So, we have to look at both sides
13 of it. We want to bring down our surcharge. But if
14 we're going to go to the dominant carrier prices, we
15 have to make certain that the costs that he charges the
16 public are based on his true costs.

17 Q. On Page 17, beginning at Line 6, you state
18 that the competitive payphone provider has his choice
19 of any number of carriers such as MCI, Sprint, and AT&T
20 to carry a particular call. Because that industry is
21 so competitive, many carriers offer payphone providers
22 volume discounts, which I believe you testified to
23 earlier today, and, again, the payphone provider has
24 choices of vendors that would affect his costs.

25 Does this fact diminish the importance of

1 the fact that U. S. West currently doesn't pay
2 commissions on intraLATA toll?

3 A. Again, the term commissions always bothers
4 me in this regard. On the intraLATA toll, the direct
5 dial type of toll, it's really a case of what my costs
6 are. And they do not offer competitive rates in this
7 arena. Therefore, I choose to use alternative
8 services.

9 Q. Mr. Coulson, on Page 21 of your direct
10 testimony, at Line 2, you state that competitive
11 payphone providers have asked U. S. West for intraLATA
12 compensation as well as a number of other services and
13 features that U. S. West continues to refuse to
14 provide.

15 How much do you believe U. S. West should be
16 paying in the way of commissions or compensation? And
17 how do you believe that amount should be calculated?

18 A. To give a definitive answer is difficult
19 because I don't have all of the costs that are
20 involved. We can only go by what is offered to us in
21 the competitive marketplace.

22 An answer to that would be to say that I
23 would use a dominant carrier if, in fact, I could do it
24 with profitability, maintain the same profitability and
25 offer the same services. I have no real break point

1 without looking at an offer brought to me. We just had
2 one recently brought to us that was quite beyond even
3 taking the time to study because it was totally
4 disproportionate as to what we're paying today.

5 It's a definite cost driven business, and we
6 have to know -- one of the gray areas that we're
7 suffering with -- is it a true cost from U. S. West or
8 is it an artificial cost excised from other areas that
9 we don't have availability to?

10 These are the things that we need to
11 address. If they were to offer equitable toll rates
12 and if they were to place a surcharge on the market
13 that was directly in relation to their costs, we
14 believe really that their surcharge would increase if
15 it were based on true costs.

16 If it's a excised cost, then we have a
17 distortion in the marketplace that makes it very
18 difficult to compete with. I feel confident that, if
19 their costs were truly reflected in their rates and
20 they would share that revenue on the same basis or on
21 an equitable basis, then we could go ahead and use
22 their services and quite comfortably so.

23 Q. On that same page at Line 16, you refer to
24 the cost of the smart phones utilized by your company.
25 And you state that this cost must be recovered by

1 higher charges to the end user or by reducing the
2 commissions paid to the site location owner.

3 How quickly do you try to recover these
4 sorts of expenses?

5 A. Our normal projections are five years to
6 recover our total equipment costs that are involved in
7 that site.

8 Q. If the Commission were to remove the
9 requirement that there be one PAL line per pay
10 telephone, would this cause blocked calls?

11 A. No. The technology is there to do extensive
12 traffic engineering. In fact, where a PBX is involved
13 or we're using T-span technology, constantly we monitor
14 the traffic load.

15 Now, I can't say that calls won't be
16 blocked. That's not even something that's placed on
17 the AT&Ts or the U. S. Wests of the world. A very high
18 percentage of guaranteed unblocking is very realistic.
19 But there, again, it would have to go -- and I go back
20 to we want to revisit the one PAL per line issue.

21 I do believe that because of the varied
22 expertise that exists in our marketplace, there should
23 be some oversight to the party that requests a
24 variance, if you would, from this procedure. There
25 should be a procedure where someone can come in and say

1 this is what I propose to do. This is how I intend to
2 monitor the traffic. This is how I intend to ensure
3 that the public has the capacity available at that site
4 to meet their needs.

5 And these are independent decisions, and we
6 need a vehicle so that we can come in and get relief
7 from this one line per because many, many installations
8 do not require -- if I go into a major mall with phones
9 everywhere, you probably have a twenty or fifty percent
10 maximum utilization of those phones. And the burden of
11 one line per phone is excessive and can be
12 anti-competitive.

13 Q. Could you turn to Page 31 of your testimony,
14 please. Beginning at Line 3, you state that you have
15 been asking U. S. West to provide certain data to you
16 on either computer disk or magnetic tape. And then you
17 state that U. S. West claims that it cannot.

18 Is it your understanding that U. S. West
19 could provide this requested data on either tape or
20 disk?

21 A. Yes. And, in fact, after we filed our
22 petition, it was brought to us and an offer was made
23 that this will be a near-term product that will be
24 available to us. However, the pricing wasn't
25 available. And, there, again, I have to reserve the

1 fact of whether I have a sigh of relief or another,
2 gee, I wish I could afford it.

3 Q. If you could turn to Page 34 of your
4 testimony. At the top of Page 34, beginning at Line 1,
5 you discuss the problem with having payphones
6 unplugged. There you state that U. S. West'_ service
7 technicians who are summoned to work on the access line
8 will often leave the competitor's payphone unplugged
9 forcing the competitors to send their own service
10 person out to plug it back in.

11 Has U. S. West given any explanation for
12 this?

13 A. No. Not at all. And I think the only way
14 that we can get it resolved is start sending bills for
15 the excess time and all that we expend to rectify the
16 problem.

17 It's a normal thing the way that the
18 standard network interface is designed. We have just a
19 modular connector like you connect your own home phone
20 into the wall. When that is disconnected, it's a clean
21 separation from my equipment and their lines and the
22 CO.

23 In order for them to test their equipment,
24 it's normal practice for them to disconnect my
25 equipment from that line. It is not a normal practice

1 for it to reconnect them after they have repaired the
2 line. And then I have to send somebody out to put the
3 equipment back in service.

4 This is a burden to us, and it happens
5 frequently. And we need to establish a process whereby
6 I can bill them the way they bill me.

7 Q. Could you please describe your understanding
8 of U. S. West's standard operating procedure upon
9 finding that a site location owner has decided to
10 change its payphone provider to a provider other than
11 U. S. West.

12 A. Policy or standard operating procedure?

13 Q. Procedure.

14 A. What is happening currently -- and it's in
15 specific accounts that are of great importance -- our
16 request for a PAL line will generate involvement by a
17 U. S. West coin representative. And we have problems
18 getting the PAL line issued, long delays, complaints
19 that we don't have the proper signature.

20 We will re-issue our letter of agency with a
21 copy of the business line to prove the signature. Back
22 and forth and back and forth, while at the same time
23 attempts are being made to retain the site with U. S.
24 West.

25 Q. What about the aerial drop? Does U. S. West

1 alter the method by which it provides a PAL aerial drop
2 when a location owner makes the switch from U. S. West
3 to another payphone provider?

4 A. U. S. West's policy is to provide the
5 standard network interface at their nearest point of
6 entry to the property. We have found that their
7 nearest point of entry may be three or four buildings
8 down. But that's where the PAL is supplied. From here
9 to there that's our problem.

10 We have had instances where we would replace
11 a phone booth on a corner that had a drop from a
12 telephone pole directly to the booth. We would order
13 service there and find that our nearest point of entry
14 was at the back of the filling station.

15 And when you have buried utility
16 requirements, that means a trench to get from there to
17 the phone booth. We have been successful in some
18 instances to reorder and move and pay an additional fee
19 to put it out where it's more accessible and practical.

20 Q. In your experience does U. S. West leave the
21 existing pads, booths, and pedestrian stalls when a
22 site location owner changes from a U. S. West payphone
23 to a non-LEC payphone provider?

24 A. Pads, booths, and pedestrian stalls covers a
25 broad spectrum.

1 Early on the policy was that we could
2 purchase a bumper post, if you would, for \$10. The pad
3 remained in sight. And we could purchase the booth in
4 place with all of its connections and just simply
5 change phones.

6 This was a very good working relationship,
7 one which brought in economies on both sides and made
8 an awful lot of sense.

9 Now we see sites that we can no longer buy
10 the enclosures in place. I understand there is a new
11 policy coming back again since we filed this complaint
12 where we will be able to. Even to the extent of
13 removing the bumper post. I can't see the purpose of
14 this other than to create the expense of replacing it.
15 And this has happened.

16 Q. Does Digital Access pay excise taxes
17 including the W tab Washington assistance program
18 E-911-TD telephone devices when subscribing to PAL
19 service?

20 A. Yes. Those all appear on my bills.

21 Q. On Page 12 of your testimony, beginning at
22 Line 13, you define over phoning. And you refer to
23 that as being an inefficient and costly means by which
24 U. S. West provides a form of redundancy.

25 Is it your opinion that over phoning

1 provides U. S. West with a competitive advantage over
2 other payphone providers?

3 A. As an opinion -- because there are policies
4 here that I'm not aware of. All we have had to do is
5 second guess what's occurring in the marketplace --
6 but, yes, from a competitive payphone provider's point
7 of view, if I place a piece of equipment that is not
8 supporting itself -- and to a great degree in some
9 areas -- then it is a sensitive location where a broken
10 phone would be a problem. Having a spare there solves
11 the problem. It does not necessarily mean
12 profitability. In fact, it destroys profitability.

13 At the onset of this business, when we first
14 came in, U. S. West offered a tiered rate of
15 commissions based on volume. And here I have been told
16 by the locations as we go into them that as soon as the
17 phone got up to a point of productivity where it was
18 going to increase commissions, suddenly would appear
19 another phone.

20 So, there may be a lot of motivations here
21 that we're only guessing at. But this is what we have
22 found in the marketplace after we first started to
23 compete. And it exists today with the over phoning.

24 Q. Would Digital Access ever knowingly place a
25 pay telephone in an unprofitable location?

1 A. Knowingly? No. But we're not perfect.

2 Q. Still on Page 12 of your testimony at Line
3 22, you refer to the increased costs to provide
4 payphone service. There you attribute this increase in
5 costs to U. S. West's refusal to provide to competitive
6 payphone providers the same types of qualities and
7 services that U. S. West provides to its own payphone
8 sets.

9 If the Commission's decision in this case
10 were to include a reduction in PAL rates, a requirement
11 that U. S. West pay commissions on intraLATA toll, and
12 the requirement that U. S. West provide comparably
13 efficient answer supervision and fraud detection, would
14 it be fair to say that you again would in turn
15 recommend that non-LEC payphone service providers
16 reduce their rates?

17 A. I assume that you're talking about the
18 operator service rates? Is that what you mean? That
19 we would reduce like our surcharges as they are so
20 often referred to?

21 Q. Right.

22 A. We would look to that very definitely
23 because we are as sensitive to that issue as the
24 Commission is. And I read Mr. Wilson's testimony in
25 the IP case. And there has got to be ninety percent of

1 that I agree with him right across the board and most
2 of my associate members do as well. We realize there
3 is a distortion in this marketplace. We want to cure
4 the cause of that distortion. It will go away.

5 There are other competitive forces that are
6 on the way to bring relief to the consumer. All of
7 these problems in the competitive market will create an
8 opportunity. That's the way competition works. And I
9 think within the next two, perhaps three weeks you're
10 going to see in the marketplace what is called a debit
11 card where the customer can pre-pay and get a card that
12 will allow him to use the same rates comparable to what
13 we offer on our direct dialing of the payphone. It
14 will bring another alternative to the end user that
15 will give him less expensive service than he currently
16 has on his charge card and still offer him the receipt.

17 He can buy this on his Master Card if he
18 wants to charge the service. That's a very economical
19 way to charge your phone calls.

20 There are a lot of new opportunities, and
21 they will be here very soon, and they have been brought
22 to this marketplace because of these very same things,
23 what is going on.

24 I can't be more explicit about it. I don't
25 use that service. All right? And I don't feel it's

1 right that anybody else have to use that service.

2 THE WITNESS: And I agree with you, Mr.
3 Wilson.

4 BY MR. SHAW:

5 Q. Would Digital Access or any other Northwest
6 Payphone Association member be willing to recommend
7 adoption of rate reduction for end users on something
8 short of the three items that I earlier mentioned: the
9 reduction of the PAL rate, requirement of U. S. West
10 pay commissions on intraLATA toll?

11 I guess I'm trying to find out what the
12 minimum change in your perception that you would need
13 before you would recommend rate reduction.

14 A. Without seeing the economic impact of each
15 of these, it's a large step in the right direction to
16 level out these inequities. It isn't really that
17 specific in our requirement, though.

18 We believe that, if the monopoly payphone
19 provider can live with the same costs, then it's up to
20 us to bring in efficiencies to profit with that same
21 level of cost. This is really all we're looking for,
22 level playing field, if you would.

23 Q. On Page 18 of your testimony, beginning at
24 Line 9, you state that they -- and there you're
25 referring to letters of praise that are attached to

1 your testimony -- praise for your three and four
2 minutes for a dollar program, that they demonstrate
3 that we really -- that we are really helping to promote
4 universal service by making long distance more
5 affordable for low income people.

6 If U. S. West were required to provide
7 comparable efficient answer supervision and fraud
8 detection, would the competitive payphone providers
9 utilize less expensive dumb payphone sets and pursue
10 the less economically profitable sections of
11 metropolitan areas so as to promote this universal
12 service?

13 A. I have a split answer because some of the
14 members of the association would look at that as an
15 advantageous way to go. I myself, I'm very jealous to
16 give up the competitive advantages I have by being a
17 stand-alone where I can really control the service more
18 thoroughly than I offer. If I go on a coin line, I'm
19 forced into a look-alike mode, and I have less of a
20 competitive opportunity.

21 So, there are unbundled features that I
22 would find very beneficial to the operation that would
23 allow me to provide a more equal service with that of
24 the monopoly provider. Those are the services that I
25 want so that I can get my equipment on par with what he

1 offers.

2 Q. Now, the letters in praise of your three and
3 four-minute programs for one dollar are in effect
4 praising MCI's rates; is that right?

5 A. We don't use their name. It's our election.
6 Yes, it's MCI's, the provider of the service. We
7 wouldn't like to say we're praising MCI because we
8 determine the price to the consumer, and the letters
9 are written to us. And those are very sincere letters,
10 by the way.

11 Q. You testified on behalf of International
12 Pacific in support of its petition for competitive
13 classification here perhaps not two weeks ago. Do you
14 remember that?

15 A. Yes, I do.

16 Q. Then you are familiar with the complaints
17 that are received by the Commission against
18 International Pacific?

19 A. I have not seen the complaints. And they
20 have given me cause for alarm. But I have not seen the
21 complaints. I would have trouble really determining --
22 I know numbers were thrown around. But there was no
23 real as compared to when you say they have doubled,
24 boy, double one is not much. But double a hundred is a
25 big number.

1 So, I really can't put that in perspective,
2 Miss Brown.

3 Q. But you were here present in the hearing
4 room when the witnesses on behalf of International
5 Pacific were asked questions about the substantial
6 increase in the number of complaints against the
7 company received by the Commission?

8 A. Yes.

9 Q. And that those complaints against the
10 Commission primarily involve the high rates charged by
11 International Pacific for those calls? Do you recall
12 that testimony?

13 A. Yes, I do.

14 Q. And that also the Commission has recently
15 filed a compliance complaint against International
16 Pacific, which is your chosen AOS provider, for such
17 things as not allowing dial-around blocking access for
18 end users.

19 Do you recall that?

20 A. Yes, I do.

21 Q. And are you aware, too, that the rates
22 charged by International Pacific are forty to sixty
23 percent higher than those charged by U. S. West and
24 AT&T, whose rates are the prevailing rates as
25 determined by the Commission in its regulation?

1 A. I haven't really made that detailed a
2 comparison. But I know they are disproportionately
3 high.

4 MS. BROWN: Thank you. I have nothing
5 further.

6 THE COURT: All right, Commissioners, have
7 you questions?

8 CHAIRMAN NELSON: Just a couple. Miss Brown
9 asked most of the ones I had.

10

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

12 BY CHAIRMAN NELSON:

13 Q. Mr. Coulson, at Page 33 of your testimony,
14 first paragraph, you make recommendations that the
15 Commission order U. S. West to do certain things in its
16 advertising.

17 Assuming the Commission has a jurisdiction
18 to regulate the content of the Company's advertising,
19 what remedy would you suggest, if, assuming that, they
20 don't obey such an order?

21 A. Because of the nature of the advertising and
22 some of the blatant untruths in it, I would look into
23 the future. Really, it would have to go to court as
24 far as we're concerned. It has damaged our market
25 tremendously, --

1 Q. So, by that answer --

2 A. -- the perception of us as a business.

3 Q. You would take it to court?

4 A. I would.

5 Q. So, it would be a separate action?

6 A. I really feel that this type of thing is not
7 -- _ell, it's just a way of showing the unfair
8 practice. But to get any redress, I would feel more
9 comfortable in the courts.

10 Q. Then there were questions from Mr. Shaw
11 about your membership of the association. I was
12 wondering if you would be able to provide -- I
13 understand you can't today -- if you would be willing
14 to provide the number of voting and non-voting members
15 as a Bench Request and their names, if at all possible.

16 A. I would be more than happy to. While we're
17 on that subject, I would like to complain: We look
18 like a very small organization, but you called this
19 hearing on a day that we have our annual seminar,
20 training, exhibition going on in Las Vegas. And I'm
21 about the only one left in town today. So, by their
22 absence they are very loud. And I want it apparent
23 that that's the reason for their absence.

24 Q. Fine. You're doing a good job. Thank you.

25 CHAIRMAN NELSON: That's all I have.

1 THE COURT: That will be Bench Request No. 1
2 then.

3 (Bench Request No. 1.)

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

5 BY COMMISSIONER CASAD:

6 Q. Your colleagues are willing to take a shake
7 in Las Vegas and you're willing to take one here?

8 A. Better luck next year.

9 Q. I was interested in trying to -- I'm a
10 little confused in sorting through the company
11 ownership and the inter-locking relationships that
12 exist between several of the companies with which
13 you're affiliated. So, I would like to if I could kind
14 of sort through that with you again so I understand who
15 owns what, who doesn't own what, et cetera.

16 You indicated that Digital Direct provides
17 facilities, i.e., equipment, and maintains ownership of
18 that equipment. But you do not have any contractual
19 relationship with the end user, with the ultimate
20 customer; that that was done by Pan Pacific? Is that
21 correct?

22 A. No. It's Pacific West Communications.

23 Q. Pacific West?

24 A. Yes.

25 Q. Now, their function is they survey the

1 market and locate a potential location for a pay
2 telephone. And then they, as I understand it, will
3 develop a contract with the site location owner to
4 provide a payphone at that location.

5 A. That would be correct, yes.

6 Q. Then they in turn contract with you
7 separately and distinctly, I assume, --

8 A. Can I help to clarify that?

9 Q. Please do.

10 A. We have already walked past a few that
11 weren't quite right.

12 We have a general partner in California who
13 by making available these services brings in investors
14 as limited partners.

15 Q. "These services" being what now?

16 A. The payphone services.

17 Q. Okay.

18 A. Now, he contracts with Pacific West to find
19 the locations, and he contracts with Digital Access to
20 do the installation, the service, the ongoing
21 collections and accountings on behalf of the general
22 partner.

23 So, --

24 Q. Who is the general partner?

25 A. The general partner is California Phones

1 Limited in California. So, that's the relationship.
2 It's a dual contractual relationship.

3 They will only select sites or accept sites
4 from the site finder, Pacific West Communications, if,
5 in fact, it comes under the contractual relationship
6 for Digital Access to do the installation service and
7 ongoing maintenance.

8 In other words, they have made two
9 agreements: One is a site finder agreement, and the
10 other is an ongoing installation, maintenance, and
11 accounting function.

12 Q. Now, the general partner is a general
13 partner with whom? Who are the limited partners_

14 A. The limited partners are groups of
15 individuals: doctors, lawyers, school teachers.

16 Q. As Mr. Shaw referred to doctors and lawyers
17 and other wealthy people?

18 A. That's not really the case. We have a
19 pretty broad spectrum.

20 Q. Not that that's the way he said it.

21 So, okay. And then your firm Digital is not
22 a limited partner or has no partnership arrangement
23 with either California Phones Limited or Pacific West?

24 A. No. We have one shared officer, and that is
25 the principal of Digital Access Communications is also

1 the principal of Pacific West Communications.

2 Q. Is there any joint ownership or
3 inter-locking ownership of any of the companies?

4 A. No.

5 Q. So, these are separate and distinct entities
6 engaging in arm's length contractual relationships for
7 the provision of the service?

8 A. Yes, it is. And may I expand on that a
9 little?

10 We structured it in this manner because of
11 the need and past experience. Marketing has one
12 viewpoint, and the investor frequently has another.
13 And I have a fiduciary relationship to the partners to
14 kind of act as an oversight, if you would.

15 If marketing gets too excited about the
16 sites that they are looking at, I have an obligation, a
17 fiduciary obligation, to say, no, this really isn't a
18 good investment. And thereupon they would go back to
19 the marketing side and say we really don't want to
20 accept that site.

21 So, it helps us to keep the marketing
22 effort, which is a very excitable and highstrung
23 effort, away from the accounting effort, which is a
24 cold, calculating fiduciary relationship. And never
25 the twain shall meet, if you would.

1 Q. How does the general partner compensate the
2 Pacific West, the marketing arm? Is that a set fee
3 arrangement?

4 A. Yes, it is. It's -- they actually supply
5 the equipment and everything else as an outright
6 purchase. They supply for the installation. And they
7 purchase the contract as a right of assignment. They
8 purchase that assignment to the general partner.

9 Q. They contract for the equipment?

10 A. Yes.

11 Q. And does Digital Direct provide the
12 equipment?

13 A. No, not directly, no. I would have to talk
14 to my accountant. There is a reasoning for it, but I
15 don't buy or sell the equipment. I'm a pure service
16 entity. And it's just for accounting purposes better
17 to set it up this way.

18 Q. So, one, you do not contract with the
19 customer?

20 A. Not directly.

21 Q. You do not buy or purchase or own the
22 equipment?

23 A. That's correct.

24 Q. And so your function is purely one of
25 operations and maintenance of the -- relationships with

1 U. S. West and then operating and maintaining the
2 equipment which belongs to I guess the general partner
3 at this point in time?

4 A. Well, yes. Once it's operational, it's
5 vested in the limited partner. They are the ultimate
6 owner of the equipment and the contract.

7 Q. They and the general partner jointly?

8 A. Yes, mm-hmm.

9 Q. And how is your firm compensated for its
10 services?

11 A. We work on a fixed percentage of the gross
12 income from the site. This puts us in a position of
13 having an incentive to make the site as profitable as
14 possible because we benefit by its profitability.

15 Q. And so through this structure, you do not
16 feel that you are a telecommunications company that
17 needs to register in the state of Washington, even with
18 your willingness, I know in your testimony. But you do
19 not believe you are one that's required to register
20 under the Act?

21 A. That's my understanding, yes.

22 Q. And the company that is required to register
23 is Pacific West, the one who actually has the contract
24 with the customer?

25 A. No. They are a marketing organization.

1 They don't get involved any further past the site
2 location and acquisition.

3 Q. So, you don't register as a
4 telecommunications company. Pacific West, the
5 marketer, doesn't register as a telecommunications
6 company. California Phones Limited, do they register
7 as a telecommunications company?

8 A. No. They are registered as a limited
9 partner in the state of Washington.

10 Q. So, there is no one affiliated with your
11 operation, either in the marketing or in equipment
12 purchase and ownership, in operations or maintenance or
13 ownership, overall ownership, who is registered as a
14 telecommunications company in the state of Washington?

15 A. No, sir.

16 Q. Do you think you're in the
17 telecommunications business?

18 A. No, sir.

19 Q. Do you think California Phone Limited is in
20 the telecommunications business?

21 A. No, sir.

22 Q. Do you think Pacific West is in the
23 telecommunications business?

24 A. In my definition of the telecommunications
25 business, it creates a question in my mind as to what

1 exactly that would mean. We are a provider of
2 equipment and services, but from my definition of it, a
3 telecommunications company, per se, furnishes the
4 transit. It's a little bit like the old toaster in the
5 electrical analogy. I'm a toaster. I'm not a utility.
6 I would have to be plugged into a wall.

7 Q. But when you get plugged into a wall, you do
8 make toast?

9 A. I sure do, hopefully.

10 Q. You indicated that your equipment uses a --
11 for standby emergency power, it uses the PAL line --
12 actually, the physical line which you purchase from U.
13 S. West that is powered by that line. In the absence
14 of that, would you have to have a separate battery
15 component for emergency power usage?

16 A. There is -- I have no need whatsoever for
17 utility power, if you would, from the electric utility.
18 I stand alone under power that is on the telephone line
19 supplied by the central office, and it's a standard
20 portion. They have to supply a certain amount of
21 current to drive the instrument. And this is the only
22 current that we use in the operation of this phone.
23 It's very much like the same as the regulated one.

24 As long as I have a telephone line, I am
25 operational. If I lose my line, of course, I lose my

1 battery. I'm no longer operational. So, it functions
2 in the same way. As long as I have a telephone line, I
3 can provide communications.

4 Q. And the cost of providing that is included
5 in the PAL line rate, tariff?

6 A. Yes. It's the same current that the house
7 phone uses, same amount or less.

8 Q. If there is a power outage in your
9 residential phone and your residential line is supplied
10 by a battery from U. S. West, ultimately the energy is
11 discharged, no more power.

12 Would the same thing apply to your phones?

13 A. If the power, utility power, at the central
14 office were to fail, then ultimately, yes, that battery
15 power would wind down.

16 However, they usually have backup power
17 sources and such. It's a much more highly reliable
18 source of power, if you would, than just a normal
19 residence. And so we would continue to get battery
20 either off of their auxiliary power source to keep
21 their generators going, to keep the batteries charged,
22 or ultimately we would run down and no longer have
23 battery.

24 Q. So, there is a pecking order? There is a
25 premium in the tariff which you pay for a higher level

1 of quality standby or emergency service than would a
2 normal residential customer?

3 A. I don't believe so. The residence has the
4 same -- it's served by the same central office. It has
5 the same backup capability. Not all central offices
6 have this, and, if my PAL line happens to be at that
7 central office with the same residence line, I share
8 the same capacity that that residence would serve.

9 It's just some central offices have greater
10 facilities than others. And if it's available, it's
11 available to me and available to the residence that's
12 served by that same central office. There is no
13 difference in the premium of the line itself.

14 We're a plain business line.

15 Q. I must have misunderstood you.

16 A. Maybe I misspoke it, sir. I'm sorry.

17 Q. So, you do not have any higher quality of
18 backup service or higher quality of provision of
19 services than any average residential or business
20 customer?

21 A. No special requirements whatsoever.

22 Q. I was interested in another comment of yours
23 when you were commenting about EAS as being good public
24 policy and not good business practice as far as you
25 were concerned.

1 A. Yes, sir.

2 Q. You indicated that you could not hand off
3 your intraLATA traffic to your interexchange carrier,
4 to MCI.

5 A. Right.

6 Q. Why not?

7 A. Well, what I'm saying is that the geography
8 of the monopoly was expanded. MCI can no longer carry
9 traffic in that extended area. Therefore, it becomes a
10 local call, and a whole different application of
11 profitability applies.

12 Q. So, you're saying presently you do hand off
13 all your intraLATA traffic to MCI, who carries that as
14 kind of a loss leader -- not a loss leader -- carries
15 that as an incentive to get your interexchange traffic.

16 Does MCI presently handle your intraLATA
17 traffic?

18 A. Yes.

19 Q. And you're saying that through the
20 conversion from EAS that these become local calls and
21 there is no intraLATA traffic involved. Therefore, the
22 local exchange company, there is no access transfer
23 there?

24 A. That's true. My volume to MCI is diminished
25 and my costs per call are increased because now I'm in

1 the monopoly rather than the competitive service area.

2 Q. Can you be in the monopoly?

3 A. Can I be in the monopoly?

4 Q. Yes.

5 A. No, sir. In the regulated area, that is,
6 the local loop where hopefully some day we'll have
7 competitive forces.

8 Q. Can you presently offer interexchange/intra-
9 traffic between exchanges in the LATA? Can you bridge
10 exchanges?

11 A. No, sir. I can only go where the
12 interexchange carriers are allowed to go. I can only
13 direct my traffic to them where they are tariffed to
14 carry it.

15 Once I'm in the local loop, whether it be
16 normal or extended, that is the U. S. West monopoly or
17 the regulated monopoly, where I must give my traffic to
18 them and they must carry it at the -- and I charge the
19 dominant rate, which is 25 cents.

20 This is an area where there is no
21 competition. I have no recourse. So, it's -- that's
22 part of the service.

23 COMMISSIONER CASAD: Thank you, sir.

24

25

E X A M I N A T I O N

1 BY COMMISSIONER PARDINI:

2 Q. Earlier there was an extra line coming out
3 of the handset on that telephone. Was that simply for
4 the purposes of this demonstration?

5 A. The extra line, sir? That's a pickup device
6 that I had on the handset that would feed into the
7 amplifier.

8 Q. It was something appropriate for this
9 demonstration? That's not how it works out in the
10 field.

11 A. Right.

12 Q. That's a handsome machine. How often does
13 it break down?

14 A. Really, that's more a product of the
15 location than it is anything else. Our predominant
16 breakdown is from abuse, vandalism.

17 Q. Hit with a hammer?

18 A. Hammer or whatever. We have had chains
19 wrapped around them and hooked to bumpers on pickup
20 trucks and drug down the street. The M-80 firecracker
21 in the coin return shoots creates a great need for
22 repair.

23 Q. What's the average life of that machine?

24 A. We look at it two ways. We feel that it has
25 a technological life of approximately seven years, a

1 physical life in excess of ten/twelve years, barring
2 the M-80 firecracker.

3 Q. Both of which are in excess of your stated
4 goal of five-year recovery?

5 A. Yes.

6 Q. And you don't own that pretty little box out
7 there, do you?

8 A. No, sir. But it's my baby. I have to feed
9 it.

10 Q. California Phones Limited owns that?

11 A. That's correct.

12 Q. And they take all the depreciation from it?

13 A. I assume they do. I haven't looked into
14 that. It's not taken at my level.

15 Q. That's why your accountant sends it over to
16 them?

17 A. We pa_s all of that down there to them. And
18 their relationship into the partnerships is -- I have
19 enough to account for.

20 Q. So, their goal is five-year recovery through
21 depreciation plus a minimum of a twelve percent return?

22 A. I didn't mean to convey that.

23 Q. But that's factual, isn't it?

24 A. That's what we are producing. But the
25 limited partners cannot be guaranteed by law any

1 specific rate of return. It's just --

2 Q. Have they achieved twelve percent return to
3 the best of your knowledge?

4 A. That is what we're currently running, yes.

5 Q. Have they achieved fifteen?

6 A. It depends on the partnerships and the
7 phones that are in it. They are all handled
8 independently. So, yes, some of them do hit that.

9 Q. Some of them hit twenty?

10 A. Not if you're looking at return of capital.
11 If you're looking at pure return on investment, yes.

12 Q. Good mall location gets a twenty percent
13 return on your investment plus five-year depreciation?

14 A. No, malls are not the place where it is.

15 Q. Where are the best places?

16 A. The best ones we still haven't been able to
17 get to. The best that we market in are the one and
18 two-phone locations in the heavy traffic mini-mart
19 area. These are our favorite locations. They are more
20 difficult because we have to market to more people.
21 They are not chain operations and such. We have yet to
22 come to the place where we can break into that market
23 like the Safeways and all. We're looking forward to
24 it.

25 Q. I believe you indicated that there were no

1 affiliated interests between the service and
2 maintenance company, the marketing company, and the
3 limited partner or the general partner, but there was a
4 principal who was the same principal from both of them.

5 A. Yes.

6 Q. And was that principal the principal in the
7 California Phones Limited plus the Direct Digital?

8 A. No. It's on the marketing, Pacific West
9 Communications and Digital Access Communications. We
10 share one officer.

11 Q. And no relationship beyond a contractual
12 relationship in those two companies with the California
13 Phones Limited?

14 A. That's true.

15 Q. Can I make a call for less than four
16 minutes?

17 A. Yes. It still costs a dollar.

18 Q. That was going to be my second question. If
19 I do, does it give me fifty cents back?

20 A. Unfortunately, we are very intelligent
21 inside that box. But that goes beyond its capabilities
22 to make change.

23 Q. How about the initial four minutes? Can I
24 go for two more?

25 A. It is unadvertised. But if you put in

1 additional coinage, it will increment your call.

2 However, it will ask for an additional dollar for four
3 minutes.

4 Q. The question is, then, "Please deposit one
5 dollar for an additional four minutes"?

6 A. That's what would be asked, yes.

7 Q. The question is not: "Please deposit 25
8 cents for each additional minute"?

9 A. No, sir.

10 Q. Have you been able to analyze or quantify
11 the value of the local exchange company doing the
12 billing for you?

13 A. I only know what I have been -- what I have
14 been researched through the operator service providers
15 and their billing agents as to what those costs are
16 because I don't have anything to bill directly. I have
17 not gone into it in that detail, no, sir.

18 Q. I'm not talking about the billing costs. I
19 believe you indicated that billing services were
20 competitive and you could get them from more than one
21 person, more than one firm, several options on billing.

22 A. The billing arrangements, actually, there is
23 only two options that I'm aware of: to bill through
24 the LEC billing process or to bill directly. And the
25 direct billing method has been tried and proven very

1 unsatisfactory.

2 Q. What is the unsatisfactory portion of it?
3 The rate of collection?

4 A. Yes, it is. People just don't know who you
5 are and ignore the bill.

6 Q. How unsuccessful? Twenty percent
7 unsuccessful?

8 A. I don't really have that information, Mr.
9 Pardini. I'm sorry.

10 Q. Not even a speculative guess? Don't you
11 talk about that at your association meetings?

12 A. It doesn't really come up. We know that
13 Sprint, for example, tried direct billing, and it
14 failed miserably. AT&T is coming back into the market
15 now with direct billing, and they will probably have a
16 better success rate because of the stronger name
17 familiarity.

18 But the direct billing method just has not
19 produced acceptable returns. It, too, is expensive
20 because you must buy the mailing lists and everything
21 else associated with them.

22 Q. How small can an investor be to become a
23 limited partner?

24 A. I would have to go back and doublecheck.
25 But the last time I looked at it the investment was

1 right at \$2500.

2 Q. Do you market any of those?

3 A. We do not direct market, no.

4 Q. Do you refer location owners to California
5 Phones Limited?

6 A. No, no. We stay arm's length from that.
7 That's a securities business.

8 COMMISSIONER PARDINI: Thank you.

9

10 FURTHER EXAMINATION

11 BY COMMISSIONER CASAD:

12 Q. May I come back? You say arm's length. But
13 you share an officer?

14 A. Yes.

15 Q. How can it be arm's length if you share an
16 officer?

17 A. We argue a lot.

18 Q. Are you the officer that's shared?

19 A. No, no. It's actually the principal, the
20 majority stockholder in Digital Access Communication,
21 also owns outright the Pacific West Communications on
22 the marketing side.

23 However, there is a high level of respect
24 because of my fiduciary relationship to the general
25 partner. Like I say, we argue a lot.

1 Q. So, the owner of one, the principal
2 stockholder of one, is also a principal stockholder of
3 the other. Yet all the transactions between the two
4 are arm's length?

5 A. I was referring to arm's length from the
6 limited partner and the securities involvement that
7 would be there. I don't refer people to the
8 partnerships. I don't solicit partnerships. I don't
9 do anything that requires a Securities and Exchange
10 license. That was the arm's length I was referring to,
11 sir.

12 Q. Probably I should have given you my
13 definition of "arm's lengths," which varies: if there
14 is no joint or common interest and that each party
15 conducts itself to the maximum benefit of that separate
16 party, which might well not be the case in this
17 particular situation.

18 A. I'm sorry for the terminology. But in
19 actuality, it's very much that case because the general
20 partners look to me as their fiduciary agent, and even
21 though there is joint ownership there, that's why I say
22 the general partners have established a veto
23 relationship that does give us some arm's length, if
24 you would. I have recourse, where in the normal
25 pecking order I would have none. I do have recourse in

1 this situation.

2 Q. Whom do you have your fiduciary relationship
3 to?

4 A. California Phones Limited, the general
5 partners.

6 Q. And he has nothing at all to do with any
7 ownership other than his contractual relationship with
8 Pacific West and Digital Access?

9 A. That's correct. The general partner is a
10 true, by your definition, arm's length agreement. We
11 have no involvement whatsoever.

12 Q. Just as a matter of curiosity, --
13 Commissioner's Pardini's question brought this to mind
14 -- when you were discu_sing before your four minutes
15 for a dollar call, you indicated that after three
16 minutes and thirty seconds the operator would come on
17 line and say, "Please deposit an additional dollar for
18 an additional four minutes."

19 A. Yes, sir.

20 Q. Aren't you using the ratepayer or the
21 customer's time that he has already bought his four
22 minutes for your commercial announcement requesting
23 that he come up with another dollar?

24 A. It's a brief interruption, and it cuts off
25 the line so that the called party can't hear it. It's

1 a matter of a very brief few seconds and then
2 communications is re-established. So, we're not taking
3 the thirty seconds out of the call. There is a few
4 seconds that is interrupted.

5 Q. But the calling party is not getting four
6 minutes for a dollar, either?

7 A. True. But the same applies on the monopoly
8 side. They have to come back in and request additional
9 deposits. And this does take time from the
10 conversation.

11 Q. Usually on the monopoly side -- correct me
12 if I'm wrong because I'm sure you know more than I --

13 A. Not always.

14 Q. -- that the monopoly operator comes in at
15 the expiration of the three minutes?

16 A. Well, Commissioner, at the expiration of the
17 three minutes the customer is hung up and gone. So,
18 it's really to come --

19 Q. Nevertheless, that's when this operator
20 comes on?

21 A. Unfortunately this does occur.

22 Q. So, that would seem to me to be a
23 substantial difference.

24 A. I'm really confident to say -- it's my
25 opinion that they do come in and ask for additional

1 money because they do this periodically through the
2 call if it's a lengthy call. They don't just let it
3 build up until the termination.

4 Q. Oftentimes I have had situations where I
5 have been at the payphone instrument, and after the
6 conclusion of the call the operator rings back.

7 A. Yes, sir.

8 Q. And says, "Sir, you owe an additional 25 or
9 50 cents." Being the dutiful, good, honest citizen
10 that I am, I put my 25 or if I have 10 cents in there.
11 Usually I know that the time has elapsed.

12 But I don't recall she or he or whomever it
13 might be, I don't recall that operator coming to me
14 during the course of the call at two minutes and thirty
15 seconds saying, "Your three minutes have expired.
16 Please give me another fifty cents so you can talk for
17 another couple minutes."

18 Where you're doing it on an anticipatory
19 basis, they are doing it on an actual use basis.

20 A. I'm left a little bit uncertain as to a
21 direct answer to that because I quite frankly haven't
22 had that lengthy a phone call in the intraLATA toll
23 market on the regulated phones.

24 But I do know that in discussions at various
25 seminars, when we are discussing these aspects of it,

1 the regulated companies stipulate that they do a
2 look-in approximately every two minutes.

3 Now, I believe that's when they ask for
4 additional deposits. Or are they just looking in to
5 see if you're still there and come back later? I'm not
6 certain.

7 There is a lot of walk-away fraud where
8 people aren't as honest as yourself and stay there to
9 pay those charges. I would have to assume good
10 business practice would say while I'm looking in I'm
11 going to get my money. But that might not be the case.

12 Q. I suggest to you that that might be one of
13 the benefits of regulation that they enjoy. The
14 regulators might, even though they might not consider
15 it the best business practice and there is some
16 walk-away fraud, perhaps regulators require that they
17 perform that service in a certain way. Again, I'm not
18 positive.

19 A. This may be. And then we would have to look
20 to the fact of is that what the regulators want? And
21 if they want it, how is it paid for?

22 COMMISSIONER CASAD: Thank you, sir.

23 COMMISSIONER PARDINI: I have one more
24 question. Will you accept my AT&T credit card on your
25 telephone?

1 THE WITNESS: Yes, sir. I will allow you
2 direct access to the 102880, Commissioner Pardini. You
3 can dial 950122 for Sprint or MCI. You can do that.

4 COMMISSIONER PARDINI: The choice is there?

5 THE WITNESS: Yes, it is.

6 THE COURT: Commissioners, anything else?

7 COMMISSIONER CASAD: No.

8 THE COURT: Will you have redi-ect, Mr.
9 Harlow?

10 MR. HARLOW: Yes, I will.

11 THE COURT: Can you estimate how much?

12 MR. HARLOW: I'll try to finish today. But
13 probably --

14 THE COURT: How much do you think?

15 MR. HARLOW: I would say probably about 45
16 minutes.

17 THE COURT: Why don't we take five minutes
18 at this time just to give people a stretch and to talk
19 scheduling. I don't know how long we'll be going
20 today. Be back at 20 minutes after.

21 MR. HARLOW: I would like to offer if anyone
22 wants to do it either on the record or off the record,
23 I think our phone has the capability if we wait two and
24 a half minutes to let that message play requesting
25 additional time if Commissioner Casad wants to know how

1 this works.

2 THE COURT: I don't think there was a
3 question about how that one works.

4 MR. HARLOW: Okay.

5 THE COURT: Just five minutes. Don't go too
6 far, please.

7 (Recess.)

8 THE COURT: Let's be back on the record.
9 After briefly discussing scheduling, we are going to
10 break at this point, come back tomorrow morning, and
11 begin at 9:00. And at that time in the morning we will
12 begin with redirect. And if there is any recross we'll
13 take that as well.

14 I'll remind the parties that they need to
15 discuss the revisions to the discovery schedule and be
16 prepared to report back in the morning about that.

17 We'll be in recess then until 9:00 in the
18 morning. Thank you.

19 (At 4:20 p.m. the above hearing was recessed
20 until Tuesday, February 2, 1993, at 9:00 a.m.)

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C E R T I F I C A T E

1 I, DONNA M. DAVIS, Court Reporter for the
2 above-entitled proceeding, did fully and accuratetly
3 cause to be prepared under my direction and control
4 these proceedings to the best of my ability.

5 DATED this day of 1993.

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