

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) Docket No. UT-960126
4 Complainant,) Volume 3
vs.) Pages 51 - 237
5 U S WEST COMMUNICATIONS, INC.,)
Respondent.)
6 -----)

7 A hearing in the above matter was held on
8 October 28, 1996 at 9:45 a.m. at 1300 South Evergreen
9 Park Drive Southwest, Olympia, Washington, before
10 Chairman SHARON L. NELSON, Commissioners RICHARD
11 HEMSTAD and WILLIAM GILLIS and Administrative Law
12 Judge C. ROBERT WALLIS.

13 The parties were present as follows:

14 U S WEST COMMUNICATIONS, INC. by Lisa
Anderl and Ed Shaw, Attorneys at Law, 1600 7th Avenue,
15 Room 3206, Seattle, Washington 98191.

16 SHARED COMMUNICATIONS SERVICES by Elizabeth
Thomas, Attorney at Law, 701 Fifth Avenue, Suite 5000,
17 Seattle, Washington 98104 and Beth Kaye, Attorney at
Law, 111 SW Fifth Avenue, Portland, Oregon 97204.

18 AT&T COMMUNICATIONS OF THE PACIFIC
19 NORTHWEST, INC. by Greg Harwood, Attorney at Law, 1501
Fourth Avenue, Suite 2600, Seattle, Washington
20 98101-1688.

21 MCI, MCI METRO, and METRONET by Brooks
Harlow, Attorney at Law, 601 Union Street, Suite 4400,
22 Seattle, Washington 98101-2352.

23 MFS INTELENET OF WASHINGTON, INC. by Morton
Posner, Attorney at Law, 3000 K Street Northwest,
24 Suite 300, Washington, D.C., 20007.

25 Cheryl Macdonald, Court Reporter

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APPEARANCES (Cont'd.)

THE COMMISSION STAFF by Shannon Smith,
Assistant Attorney General, 1400 South Evergreen Park
Drive Southwest, PO Box 40128, Olympia, Washington
98504-0128.

FRONTIER TELEMAGEMENT, INC. by Sara
Siegler Miller, Attorney at Law, 2000 Northeast 42nd,
Suite 154, Portland, Oregon 97213 and Michael J.
Shortley, III, 180 South Clinton Avenue, Rochester,
New York 14646.

DEPARTMENT OF INFORMATION SERVICES, by
ROSELYN MARCUS, Special Assistant Attorney General,
811 Fairview Road, Carlisle, Pennsylvania 17013

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I N D E X

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3 WITNESS: DIRECT CROSS REDIRECT RECROSS EXAM

4 BAIRD 64 66 181 188 172

5 ZEPP 190 192 212

6 RAINS 213 214 229 235 231

7 EXHIBIT MARKED ADMITTED

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12 10	59	64
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13 12	59	64
13	59	64
14 14	59	109
15	59	64
15 16	59	64
17C	59	64
16 18C	59	64
19C	59	64
17 20C	59	64
21C	59	64
18 22	59	
23	59	183
19 24C	177	183
25C	177	185
20 26	192	192
27	211	211
21 28	213	214

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1 attorney general representing Commission staff. My
2 address is 1400 South Evergreen Park Drive Southwest,
3 Olympia, Washington 98504-0128.

4 JUDGE WALLIS: Thank you. I will state for
5 the record that Mr. Manifold on behalf of public
6 counsel advised the Commission last week that because
7 of the press of business he would be unable to
8 participate in the hearing today. Let's proceed with
9 appearances by others. Ms. Marcus.

10 MS. MARCUS: Roselyn Marcus, special
11 assistant attorney general representing the Washington
12 State Department of Information Service. My address
13 is 811 Fairview Road, Carlisle, Pennsylvania 17013.

14 JUDGE WALLIS: Thank you.

15 MR. HARWOOD: I'm Greg Harwood of the law
16 firm of Davis Wright Tremaine representing AT&T. My
17 business address is 990 Main Street, Suite 911, Boise,
18 Idaho, 83702.

19 MR. POSNER: I'm Morton Posner representing
20 MFS Intelenet of Washington. I'm from the law firm of
21 Swidler and Berlin, 3000 K Street, Washington D. C.,
22 20007.

23 MR. HARLOW: Brooks Harlow representing MCI
24 Metro and Metronet Services Corporation, intervenors.
25 I'm with the law firm of Miller Nash, et al. Our

1 address is 601 Union Street, Suite 4400, Seattle,
2 Washington 98101-2352.

3 MS. SIEGLER MILLER: Sara Siegler Miller.
4 I'm representing Frontier Telemanagement. My business
5 address is 2000 Northeast 42nd, Suite 154, Portland,
6 Oregon, 97213. With me today is Mr. Michael Shortley,
7 counsel for Frontier Corporation. His address is 180
8 South Clinton Avenue Rochester, New York, 14646.

9 MS. THOMAS: I'm Elizabeth Thomas of the
10 law firm Preston Gates and Ellis representing Shared
11 Communications Services. My business address is 701
12 Fifth Avenue, Suite 5000 Seattle, Washington 98104.
13 With me at counsel table also representing Shared
14 Communications Services also from Preston Gates and
15 Ellis is Beth-Karan Kaye. Beth's business address is
16 3200 US Bankcorp Tower, 111 Southwest Fifth Avenue,
17 Portland, Oregon 97204.

18 JUDGE WALLIS: Thank you very much. Are
19 there other appearances to be made this morning? Let
20 the record show that there is no response. Before the
21 hearing began this morning, we went through the
22 documents that had been prefiled as exhibits on behalf
23 of the company, and documents that had been presented
24 this morning by parties who expect that they may or
25 that they definitely intend to offer either by

1 stipulation or through the company's witness, Ms.
2 Baird. I would like to identify those documents for
3 the record right now and I'm going to ask counsel to
4 keep an eye on me and make sure that I get them right
5 and pipe up if you hear me missing something or
6 misstating something.

7 The document that is designated prefiled
8 direct testimony of Ms. Baird is marked as Exhibit 1
9 for identification. That includes attachment B to the
10 document as filed. We will mark as Exhibit 2C for
11 identification the confidential attachment A to Ms.
12 Baird's original prefiled direct testimony.

13 Exhibit 3 for identification will be Ms.
14 Baird's prefiled rebuttal and Exhibit 4 will be the
15 document designated KAB-1 ELI contracts. Exhibit 5
16 will be KAB-2 Centrex service from TCG. Exhibit 6
17 will be KAB-3, U S WEST Communications Inc. tariff
18 pages. Exhibit 7 for identification will be KAB-4 a
19 brochure purporting to be of Metronet.

20 Following documents have been identified by
21 other parties. Exhibit 8 for identification is a
22 document identified as a letter to Ms. Jill Gracia
23 dated September 25, 1995, and Exhibit 9 is a brochure,
24 Dynamic New Service. These are being presented for
25 identification by Mr. Harlow and he is asking that

1 MFS, and they are respectively a document designated
2 data request 003 in a Colorado proceeding as Exhibit
3 22 for identification. And a document entitled
4 Business in Government Services as Exhibit 23 for
5 identification.

6 How did we do?

7 (Marked Exhibits 1 - 23.)

8 MR. HARLOW: Great.

9 JUDGE WALLIS: Let us at this time ask the
10 company to state as it has indicated the objection
11 that it has to the documents that are offered by Mr.
12 Harlow and that have been identified as Exhibits 8 and
13 9 for identification. Ms. Anderl?

14 MS. ANDERL: Thank you, Your Honor. Our
15 objection is as to relevance, and perhaps if Mr.
16 Harlow could explain what purpose he seeks to have
17 these admitted that would address my objection at this
18 point. As I said, we have agreed or stipulated as to
19 their authenticity but still question their
20 admissibility in this proceeding.

21 JUDGE WALLIS: Mr. Harlow.

22 MR. HARLOW: Thank you, Your Honor. First
23 of all, I would like to read the stipulation of the
24 company into the record. "U S WEST stipulates to the
25 authenticity of the attached documents as follows:"

1 One -- which corresponds to Exhibit 7 -- the first
2 document is a brochure together with various one to
3 four page inserts to the brochure used during the time
4 period around September 25, 1995 by the U S WEST small
5 business group in the marketing of Centrex Plus.

6 Two -- this corresponds to Exhibit 8 -- the
7 second document is a cover letter, together with
8 enclosures, constituting a portion of a proposal by
9 U S WEST to provide Centrex Plus to Latitude 47, a
10 potential customer. "The foregoing stipulation
11 addresses only the authenticity of the documents and
12 parties reserve their positions on admissible issues
13 such as relevance."

14 I'm offering this not necessarily as a
15 stipulation, because we don't have a stipulation by
16 the company, but it's more along the lines of official
17 notice, and basically to save time rather than going
18 through with a hostile witness on cross since
19 authenticity is admitted. These directly rebut Karen
20 Baird's opening testimony as well as her rebuttal
21 testimony. Specifically she talks about how Centrex
22 Plus -- on page 3, line 4 to 6 she talks about how
23 Centrex Plus is designed for medium and large
24 businesses, and I think the marketing exhibits address
25 -- suggest that perhaps it's also for small

1 businesses. As page 11 of Ms. Baird's opening
2 testimony, line 17 she says how retail customers have
3 alternatives to Centrex Plus. Again, the marketing
4 brochures talk about the supposed advantages of
5 Centrex Plus over the other business products that Ms.
6 Baird says are an alternative.

7 In her rebuttal testimony at page 13, the
8 whole page starting at line 1 she says grandfathering
9 is not anti-consumer. Again, the marketing brochures
10 rebut that. The rebuttal at page 22 she says that the
11 growth restrictions are not unduly restrictive.
12 Again, if you go through the brochures you see that
13 they repeatedly address issues related to this
14 testimony, including Exhibit 8 on about the third or
15 fourth page headed "Benefits of Centrex Plus." One of
16 the things that U S WEST touted to customers is
17 its "unlimited growth capacity."

18 The proposed system design talks about how
19 you can have as many stations, any number that are
20 needed when they are needed, according to the
21 brochure, Exhibit 9. It says you can grow or downsize
22 at will. You can protect your investment from
23 obsolescence. Don't have to worry about obsolescence.
24 It talks about Centrex Plus ISDN services that are
25 available. Flexibility and adaptability. "Centrex

1 Plus won't become obsolete with your company's growth
2 and expanding services. It can handle one line or
3 10,000 lines."

4 So I think this goes to the question of
5 credibility of Ms. Baird's testimony and additionally
6 it goes right to the heart of the public interest
7 issue when the company has made representations as
8 recently as last year to customers and potential
9 customers and then proposes a tariff filing which
10 significantly pulls back on those representations.

11 JUDGE WALLIS: Ms. Anderl.

12 MS. ANDERL: Well, Mr. Harlow appears to be
13 making some sort of an equitable estoppel argument
14 that once we've said something in a marketing brochure
15 that we can never ever take another position including
16 when market conditions change to take the position
17 that we must of necessity withdraw the product, and I
18 think that that's just absurd, and I think that
19 marketing brochures establish no such thing. I still
20 contend that they're not relevant to the Commission
21 or the issues in this proceeding which is the
22 withdrawal of this product, of grandfathering it,
23 freezing it to existing customers. I fail to see how
24 anything contained in either of these documents is
25 going to be able to make the facts at issue more or

1 less likely to be true for the Commission's decision.

2 JUDGE WALLIS: Parting shot, Mr. Harlow.

3 MR. HARLOW: It's not an equitable estoppel
4 argument. The issues in this case are whether the
5 tariff revisions are fair, just, reasonable and in the
6 public interest and with the standards as broad as
7 that certainly I think the Commission would want to
8 see and has, in many cases in the past, admitted
9 company's marketing materials as part of the overall
10 picture going to that standard.

11 JUDGE WALLIS: The objection will be
12 overruled and the documents will be received. Is
13 there anything else, Ms. Anderl? You've indicated a
14 potential objection to Exhibits 22 and 23 for
15 identification and we've indicated that we will hold
16 those objections until you've had a chance to confer
17 with opposing counsel and until Mr. Posner's time line
18 cross begins. Other than that, do you have
19 objections? Are you comfortable with receiving the
20 documents at this time?

21 MS. ANDERL: The only other one that I have
22 a question about, and perhaps we'll have a break
23 before Ms. Siegler Miller offers it for introduction,
24 but Exhibit 14 for identification. Maybe if I can
25 talk to her off the record I can find out, similar to

1 the discussion I just had with Mr. Harlow, for what
2 purpose she seeks to have it admitted and I may not
3 have an objection to it at that time.

4 JUDGE WALLIS: Very well. With that
5 exception and the exception of 22 and 23, may we
6 receive those now?

7 MS. ANDERL: Yes.

8 JUDGE WALLIS: Exhibits 1 through 13 and 15
9 through 21C are received in evidence.

10 (Admitted Exhibits 1 - 13, 15 - 21C.)

11 JUDGE WALLIS: Let's be off the record for
12 just a few moments and we'll take up with Ms. Baird as
13 soon as we resume. During the brief off-the-record
14 period I'm going to ask Ms. Baird to step forward and
15 get comfortable at the witness table and then we'll be
16 prepared to proceed.

17 (Recess.)

18 JUDGE WALLIS: Let's be back on the record,
19 please. The company is calling its witness, Karen
20 Baird.

21 Whereupon,

22 KAREN BAIRD,
23 having been first duly sworn, was called as a witness
24 herein and was examined and testified as follows:

25

1 DIRECT EXAMINATION

2 BY MS. ANDERL:

3 Q. Would you please state your name and your
4 business address for the record.

5 A. My name is Karen Ann Baird. My address is
6 421 Southwest Oak, Portland, Oregon, 97204.

7 Q. Thank you.

8 JUDGE WALLIS: Would you pull the
9 microphone just a little bit closer.

10 Q. Ms. Baird, did you prepare prefiled direct
11 testimony in this docket with a confidential
12 attachment A and attachment B which have been marked
13 as Exhibits 1 and 2C?

14 A. Yes.

15 Q. And did you also prepare rebuttal testimony
16 which has been marked as Exhibit 3 attached to which
17 is KAB-1 through 4 which are now identified as
18 Exhibits 4 through 7?

19 A. Yes.

20 Q. And if I were to ask you the questions
21 contained in that direct and rebuttal testimony today,
22 would your answers be the same?

23 A. Yes.

24 Q. Do you have any changes or corrections to
25 make?

1 A. No.

2 MS. ANDERL: Your Honor, if the testimony
3 and exhibits have not already been admitted I would
4 offer them and tender the witness for cross.

5 JUDGE WALLIS: Very well. I believe they
6 have been admitted and let's proceed to Commission
7 staff Shannon Smith.

8

9 CROSS-EXAMINATION

10 BY MS. SMITH:

11 Q. Good morning.

12 A. Good morning.

13 Q. I'm Shannon Smith and I am representing
14 Commission staff in this proceeding.

15 JUDGE WALLIS: Ms. Smith, and I am going to
16 ask anyone who is speaking, please bring the
17 microphone right up very close to you, position it so
18 that you can look at your materials and yet talk right
19 into the microphone. That helps all of us, especially
20 the people in the back of the room, follow what's
21 going on.

22 MS. SMITH: Thank you.

23 Q. Ms. Baird, as director of markets/
24 regulatory strategy, what are your responsibilities in
25 that position?

1 A. I'm responsible for working with our market
2 units and our regulatory staff on primarily issues
3 that have come before regulatory bodies, so I
4 primarily work with regulatory hearings.

5 Q. And how long have you held that position at
6 U S WEST?

7 A. Since January of '95.

8 Q. Have you provided testimony before any
9 other state commission regarding the proposal by U S
10 WEST to withdraw and grandfather Centrex Plus?

11 A. Yes, I have.

12 Q. And what states were those?

13 A. I've provided testimony in the state of
14 Montana, provided testimony and hearings in the states
15 of Colorado, North Dakota, South Dakota, Minnesota,
16 Utah, and I think that's it. Excuse me. Not on the
17 withdrawal of Centrex but I have testified in the
18 state of Iowa on Centrex matters.

19 Q. Would you please turn to page 3 of your
20 direct testimony. Beginning at the bottom of page 3
21 and carrying over to page 4 you list other Centrex
22 services which have been grandfathered in the past by
23 U S WEST. Would you agree that in most of those cases
24 U S WEST had a replacement Centrex product ready to
25 offer customers at the time it made the withdrawal and

1 grandfather?

2 A. I'm not sure if in the Centrex
3 grandfathered on March 30, 1981 that there was a
4 replacement product. With that exception, then yes, I
5 believe there would have been.

6 Q. And would you know the name of that
7 product?

8 A. Excuse me?

9 Q. Do you know the name of that product that
10 was grandfathered on that date?

11 A. Centrex, that was the original product that
12 was called Centrex. When it was grandfathered on
13 March 30 of 1981 I'm not sure there was a replacement
14 product available.

15 Q. I would like to call your attention to
16 Exhibit 2C which was the exhibit, the confidential
17 Exhibit A to your testimony. And I have conferred
18 with counsel beforehand to speak of the differences in
19 revenue between a business line and Centrex line in
20 the amount of about \$12 per line per month.
21 Has there been any recent rate change that has
22 suddenly created that \$12 difference?

23 A. No.

24 Q. And about how long has that \$12 difference
25 been in effect?

1 A. Well, I'm not sure exactly what the rates
2 were in the variety of products. It would be
3 difficult to answer the question definitively because
4 it does include a large family of products in this
5 analysis.

6 Q. Would you agree then that the \$12
7 difference or somewhere around \$12 has been in effect
8 for a while?

9 A. Yes.

10 Q. At least a couple of years?

11 A. I'm not sure that I can agree with the
12 couple of years because, once again, it does cover a
13 variety of products, features, toll, access services.
14 It's difficult to know since there have been many
15 price changes in those products.

16 Q. In a discovery response to AT&T,
17 specifically the company's response to AT&T data
18 request No. 3, the company provided some information
19 to the effect that U S WEST had been planning to
20 grandfather Centrex Plus and replace it with a
21 successor version of Centrex since the fall of 1995;
22 is that correct?

23 A. Yes.

24 Q. Please turn to page 5 of your direct
25 testimony which is now Exhibit 1, and on that page you

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1 indicate the reason for making the Centrex proposal an
2 issue here, the withdrawal and grandfather, is the
3 company's concern about uneconomic arbitrage; is that
4 correct?

5 A. Yes, that is correct. I was just looking
6 for the actual reference. I found it. I'm sorry,
7 line 7 and 8.

8 Q. And that is -- your answer was that that
9 was correct?

10 A. Yes, correct.

11 Q. In staff data request No. 2, the company
12 was asked whether it equated uneconomic arbitrage with
13 resale and the response to that data request was, "yes
14 in some circumstances." Can you explain under what
15 circumstances the company would find resale and
16 uneconomic arbitrage to be equivalent?

17 A. I think that in the example of the Centrex
18 Plus filing before us we have some concerns about the
19 uneconomic arbitrage that is occurring, and primarily
20 it's around the fact that we developed the Centrex
21 product as a competitive vehicle for PBX systems for
22 single individual customers, and now with the resale
23 of Centrex it's being used to serve unrelated small
24 business customers and in addition being used to
25 bypass our switched access services and our intraLATA

1 toll, and we believe the use of the product in that
2 manner is creating uneconomic arbitrage opportunities,
3 so that would be an example of where resale is an
4 uneconomic arbitrage.

5 Q. At page 11 of your rebuttal testimony,
6 which is now Exhibit 3 in this proceeding -- you found
7 it?

8 A. Yes, page 11.

9 Q. At lines 10 through 13 you indicate that
10 the alleged arbitrage problem will negatively impact
11 U S WEST's other customers. Would you explain how
12 arbitrage would negatively impact the other customers?

13 A. How the arbitrage can negatively impact
14 other customers is the customers that would go to the
15 Centrex in an arbitrage situation would leave other
16 customers on the existing products, and if a lower
17 cost customer should move to the Centrex Plus in this
18 example in an arbitrage situation, then the remaining
19 customers that have a higher cost would be left to
20 support the product with a lower amount of revenue,
21 and therefore the average rate could go up for those
22 customers.

23 Another example would be by bypassing
24 switched access services, which does contribute to the
25 company, that by bypassing that switched access

1 service that leaves less switched access revenues
2 available for the rest of the company to support our
3 other services.

4 Q. Did the company perform any studies to
5 demonstrate that other customers would be negatively
6 affected by the resale of Centrex service?

7 A. The company did do some studies projecting
8 if some percentage of our 1FB was to migrate to
9 Centrex Plus what kind of revenue impacts that there
10 could be, and very quickly became apparent with even a
11 very small percentage that it would be several million
12 dollars, and in fact even a doubling of our existing
13 amount of resale lines would result in an arbitrage of
14 about \$3 million per year.

15 Q. Did the company do any studies to assess
16 whether there would be any impact to non-1FB
17 customers?

18 A. No.

19 Q. You have before you what's been marked for
20 identification as Exhibit 10C which are the company's
21 responses to staff's data requests No. 4. Do you have
22 that document in front of you?

23 A. Yes, I do.

24 Q. Could you please turn to page 2 of that
25 document. Explain what this page is intended to show.

1 A. Page 2 of the -- as in 2 of 8 or page 2 as
2 in --

3 Q. Page 2 of 8, I'm sorry.

4 A. What this document is showing is exactly
5 the example I was giving previously where of our 1FB
6 services if various percentages of those were to
7 convert to resold Centrex lines then it's an estimate
8 of the arbitrage that could occur.

9 Q. Now, when you say that's an estimate of the
10 arbitrage, do you mean that it's a demonstration that
11 arbitrage is occurring or does that mean that it's an
12 identification of the magnitude of the potential
13 revenue losses that the company is claiming?

14 A. I believe that page 1 of 8 probably is
15 showing what the arbitrage -- the arbitrage that is
16 occurring, and then I think your characterization is
17 that it would be the revenue that would result from
18 that per line arbitrage that is occurring.

19 Q. And turning back to page 1 of 8 in Exhibit
20 10C at the upper left of the page is a line titled
21 Basic Business Average Line?

22 A. Yes.

23 Q. Does the amount next to it represent the
24 average business access line revenue?

25 A. Yes, it does.

1 Q. Does it include anything else?

2 A. Yes. It includes usage EAS custom calling
3 features and CALC.

4 Q. Do you know whether the term basic business
5 line as used in Exhibit 10C on page 1 of 8 includes
6 complex lines?

7 A. Yes. My understanding is it includes both
8 the 1FB and then the complex lines or 1FL lines.

9 Q. Like to direct your attention to page 3 of
10 Exhibit 10C, and this page shows the average revenues
11 per line for 1FB custom calling features, 1FB rate and
12 the business CALC which is the customer access line
13 charge; is that correct?

14 A. Yes, that is correct.

15 Q. Is it correct or would you accept subject
16 to check that the sum of those numbers on page 3 of 8
17 does not equal the numbers shown on page 1 of 8 of
18 Exhibit 2C?

19 A. I'm sorry, are you saying that if you do
20 the mathematical calculation it doesn't enter -- equal
21 the number that's on the front?

22 Q. That's correct.

23 A. I don't have the calculator here with me.
24 I believe that it should be the number. This should
25 be the backup page for that answer.

1 Q. So it's your testimony that although you
2 don't have a calculator in front of you, you believe
3 that the numbers would be the same, that would add up
4 to the same?

5 A. They should be the same, yes.

6 Q. Turning now to page 6 of Exhibit 10C, would
7 you agree that this page shows the company's
8 calculation of the average revenue per line for
9 Centrex station lines?

10 A. Of average resold Centrex station lines,
11 which may be different than retail Centrex lines.

12 Q. Do you know how that average revenue per
13 line was calculated by the company?

14 A. Yes. My understanding was we took the
15 actual bills of the Centrex resellers in the state of
16 Washington and we did a fairly simple calculation
17 where we divided their total revenues by the -- total
18 revenues for these items by the total of lines they
19 had in service and came up with an average per rate
20 line.

21 Q. Is it implicit in the company's
22 calculations that the customer is using a ratio of
23 network access channels, otherwise known as NACs, to
24 network access registers known as NARs and the ratio
25 was somewhere around 3.5 to 1?

1 A. Yes, that would be correct. Several of the
2 Centrex resellers in Washington do use nonblocked
3 lines, and so that's another factor that contributes
4 to that so that the remaining does tend to have a very
5 high line to NAR ratio of 3.5.

6 Q. Would the average revenue per line for
7 Centrex be lower if a customer were to choose to use a
8 ratio of NACs to NARs as opposed to using 100 percent
9 Centrex option?

10 A. I think I have to restate your question.
11 Would the revenue be less if they had fewer NARs per
12 stations?

13 Q. Yes.

14 A. Yes, that would be correct. However, in
15 this case we used the actual.

16 Q. Now, if a customer were to choose blocks
17 Centrex, the customer wouldn't be receiving the same
18 assurance of a dial tone that a customer would receive
19 if a customer were to choose 1FB; is that correct?

20 A. I don't believe so, because when a customer
21 chooses nonblock they engineered the system to meet
22 the needs of their customers, and so normally they
23 would engineer it to receive the same level of
24 service.

25 Q. But it would be possible, wouldn't it, that

1 a customer would not receive the same assurance of
2 dial tone in every possible conceivable situation that
3 a customer could expect with 1FB service?

4 A. Yes, that is correct.

5 Q. Please flip back to page 4 of Exhibit 10C
6 and that's page 4 of 8, and this page shows the
7 calculation average intraLATA toll revenue per 1FB
8 access line; is that correct?

9 A. Yes, it does.

10 Q. Would you agree that if the number were not
11 considered in the analysis the amount of revenue
12 difference you show on page 1 would be significantly
13 smaller?

14 A. Yes.

15 Q. Now, if I could turn your attention to
16 Exhibit 11C, which are the company's responses to
17 staff data request No. 5. Now, in data request No. 5
18 the company was asked to provide a proforma estimate
19 of potential revenue losses assuming the rate change
20 is ordered by the Commission and the rate case were in
21 effect; is that correct?

22 A. Yes.

23 Q. And looking at page 1 of 2 of Exhibit 11C,
24 is it correct that the response shows the same amount
25 of total revenue for business average line revenues as

1 was shown on page 1 of Exhibit 10C, which is the
2 response to DR4?

3 A. Yes.

4 Q. Do you know whether the Commission ordered
5 reductions to business line and toll rates in the
6 recent rate case docket No. UT-950200?

7 A. I'm not sure about toll but my
8 understanding was there was some rate decreases in the
9 1FB, 1FL. The business rate would change.

10 Q. Given the fact that Exhibit 11C
11 specifically asked the company to assume that the
12 Commission's rate changes order in the rate case were
13 in effect, can you explain why those reductions did
14 not appear to be reflected in the data request
15 response?

16 A. No, I cannot.

17 Q. Does the company represent that the
18 information contained in staff's data request No. 5 to
19 be accurate?

20 A. I believe at the time that it was put
21 together the regulatory assistant that was assisting
22 me believed it was accurate, yes, as far as the impact
23 on the rate order changes. As it related to toll I
24 can take that as an action item and check and get back
25 to you.

1 Q. Make that a record requisition.

2 MS. ANDERL: And that would be a request
3 for exactly what information?

4 MS. SMITH: That the information contained
5 on page 1 of 2 of Exhibit 5 is correct.

6 MS. ANDERL: Both columns then is what
7 you're looking for?

8 MS. SMITH: Yes.

9 JUDGE WALLIS: Be record requisition No. 1.
10 (Record requisition 1.)

11 MS. SMITH: May have just one moment,
12 please.

13 Q. Turn your attention, please, to page 24 of
14 your rebuttal testimony.

15 A. Page 4 of my rebuttal?

16 Q. 24, please. Specifically to lines 1 and 2.

17 A. Yes.

18 Q. You state that U S WEST is highly
19 vulnerable to revenue losses due to the claimed
20 arbitrage. Is there some percentage loss of 1FB lines
21 that the company believes it may experience?

22 A. In similar work as it relates to resale
23 I've done some estimates around the 30 percent range
24 in a relatively short period of time.

25 Q. And what's the basis for that calculation?

1 A. The primary basis I use for that
2 calculation was internal company forecasts, and in
3 addition those forecasts were based on some surveys
4 and market research that the company has conducted.

5 Q. Do you know what A61 reports are?

6 A. No, I'm sorry, I don't.

7 Q. Would you agree or accept subject to check
8 that the company's A61 reports show that business
9 local exchange revenues increased by an average of \$11
10 million per year from 1991 to 1995?

11 MS. ANDERL: Well, I would have to object,
12 Your Honor. The witness has previously stated she
13 doesn't know what those reports are.

14 MS. SMITH: The question was asked subject
15 to check. We can provide that information for the
16 witness.

17 MS. ANDERL: If you can provide us with the
18 reports in order that we can check it I would withdraw
19 my objection.

20 JUDGE WALLIS: Very well.

21 MS. SMITH: We'll do that.

22 Q. Why didn't the company consider how its net
23 income would change in assessing financial harm the
24 company alleges it might experience due to the resale
25 of Centrex loops?

1 A. Let me see if I can understand your
2 question. Why didn't the company analyze the harm
3 that would occur if resold Centrex loops were used?
4 I'm not understanding if you're saying specifically
5 the loop portion of the service.

6 Q. The company is alleging significant revenue
7 losses due to the resale of Centrex Plus and the
8 company has provided documentation of the revenue
9 losses. Why hasn't the company considered a loss, if
10 any, of net income in defining its losses due to
11 resale of Centrex Plus?

12 A. This filing is a filing to withdraw the
13 Centrex Plus service. It was not a filing to change
14 the rates so the company did not include cost or
15 contribution analysis in this decision -- excuse me,
16 in this filing and in this case.

17 Q. Turning to page 12 of your rebuttal
18 testimony, you state that U S WEST currently has a
19 tariff that includes a loop discount schedule for 1FB,
20 which you've provided as Exhibit 3 to your rebuttal
21 testimony; is that correct?

22 A. Yes.

23 Q. Now, if you can turn to Exhibit 3 of your
24 rebuttal testimony, isn't it correct that this exhibit
25 refers to complex lines not 1FB service?

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1 A. Yes, that is correct.

2 Q. Do you agree that complex lines service is
3 a different service than 1FB?

4 A. I'm not sure that I can agree with that.
5 My understanding of the complex is that simply the
6 first four lines that a customer uses are considered
7 to be 1FB service. Then the additional lines are
8 complex service, so I'm not sure that I can agree that
9 they're truly different services.

10 Q. Wouldn't you agree that they have different
11 rates?

12 A. Yes, I would agree they have different
13 rates.

14 Q. So currently there are no discounts for 1FB
15 service; is that correct?

16 A. That is correct.

17 Q. Would you agree that quantity discount for
18 1FB service would reduce the \$12 difference that you
19 show in your confidential Exhibit A which is now
20 Exhibit 2C?

21 A. Yes. I would agree that any rate
22 reductions may show a difference. Of course there may
23 be corresponding rate reductions in the other product,
24 but in theory that's true.

25 Q. Do you know of any reason why the company

1 does not want to offer a quantity discount for 1FB
2 service?

3 A. I don't represent the 1FB service for
4 company currently so I have not been in any
5 discussions about discount with that organization.

6 Q. In your rebuttal testimony at page 11,
7 beginning with line 1 you refer to advice No. 2769T.
8 Have you found it?

9 A. Yes, I have.

10 Q. Beginning at line 1 you refer to advice No.
11 2769T as a filing in which the company proposed a
12 modest rate increase for Centrex Plus station lines.

13 A. Yes.

14 Q. Would you accept subject to check that
15 advice No. 2769T was a proposal of the company to
16 eliminate the distance-sensitive rate schedule?

17 A. Yes. My understanding of the proposal was
18 to go totally on the volume and not on the distance.
19 That is my understanding.

20 Q. And would you accept or -- would you agree
21 or would you accept subject to check that in its 17th
22 supplemental order in the rate case docket the
23 Commission ordered the company to file a \$2 monthly
24 rate increase to the Centrex Plus NAC rates that were
25 the subject of advice 2769T?

1 A. Yes. It is my understanding that there was
2 an order to do an across the board rate increase of \$2
3 of all of the NACs and all of the different distance
4 calculations.

5 Q. Would you please look at Exhibit 12. Then
6 could you go to revised sheet 13.9.

7 MS. ANDERL: 13.9?

8 MS. SMITH: Right. I'm sorry, original
9 sheet 13.9.

10 Q. Now, also referring you to page 3 of your
11 rebuttal testimony, at lines 16 you refer to Centrex
12 loop -- Centrex Plus loops at incredibly low rates.
13 Does that testimony refer to the rates -- does that
14 testimony refer to the rates shown on original sheet
15 13.9?

16 A. Yes. I think it does point to the rates on
17 that sheet. However, I think it refers to any time
18 that they can purchase a Centrex loop, which is the
19 same as the loop used in LIS link and to some extent
20 our private line service, at greatly reduced rates, so
21 it would be not only this page but other pages
22 including the subsequent filings with the \$2 increase.

23 Q. Referring to your rebuttal testimony at
24 page 12, beginning at line 7 you state that an
25 alternative local exchange carrier can utilize

1 unbundled loops for a rate of \$4.65 to \$7.32. Does
2 that testimony refer to the rates currently pending
3 before the Commission in the rate case compliance
4 filing?

5 A. Yes. I believe it does looking at the
6 60-month option available.

7 Q. So is it correct that the rates you cite
8 would already reflect the \$2 monthly increase ordered
9 by the Commission in the 17th supplemental order in
10 rate case?

11 A. Yes, I believe they do.

12 Q. Is it correct that in large part the
13 company is concerned that the distance-sensitive loop
14 Centrex rates will be used in lieu of unbundled loop
15 rates which are currently the subject of several
16 arbitration proceedings?

17 A. Definitely.

18 Q. Is it correct that the FCC rules, which are
19 -- the FCC rules for unbundled loops require prices to
20 be set to reflect geographic cost differences?

21 A. Yes. I do understand that is an element of
22 that order.

23 Q. Are you aware or would you accept subject
24 to check that Illinois Bell offers unbundled loop
25 rates in the range of \$4.65 monthly in urban areas?

1 A. I am not familiar with the orders or
2 tariffs in the state of Illinois.

3 Q. But you would accept that subject to check?

4 MS. ANDERL: Again, Ms. Smith, can you
5 provide us the ability to check that?

6 MS. SMITH: We'll get that information for
7 the witness.

8 Q. Isn't it correct that the company won't
9 know whether the Centrex Plus NAC rates are going to
10 cause any arbitrage problems for the company until
11 unbundled loop rates are determined in the state of
12 Washington?

13 A. Yes, that would be a component.

14 Q. Would you please turn to page 17 of your
15 rebuttal testimony, and beginning at line 4 you state
16 that U S WEST agrees that business local exchange
17 service rates need to be lowered and has attempted to
18 lower such rates in revenue neutral and rate case
19 proceedings over the last several years. Would you
20 agree subject to check that U S WEST proposed to
21 slightly increase flat-rated business local exchange
22 rates in the last general rate case?

23 A. Yes. However, I point out that that says
24 business local exchange service which it would include
25 the complex lines, and we have asked for reduction in

1 complex lines.

2 Q. At page 19 of your rebuttal testimony you
3 cite FCC 96-325 paragraph 968 in support of the
4 conclusion that you draw at lines 14 through 16 of
5 your testimony that the FCC clearly does not believe
6 that Centrex type services are essential to develop
7 local competition.

8 A. Yes.

9 Q. Would you agree subject to check that the
10 rule, the FCC rule 96-325, begins with the language,
11 "We are concerned that the incumbent LEC's ability to
12 withdraw service may have anticompetitive effects
13 where resellers are purchasing such services for
14 resale in competition with the incumbent?"

15 A. Yes. However, as I indicated that since
16 our withdrawal of Centrex was specifically brought to
17 their attention, if they had had unique specific
18 concerns about Centrex I believe they would have
19 addressed them in the order.

20 Q. But would you agree that the language in
21 the rule does express a concern by the FCC regarding
22 withdrawal of services?

23 A. Yes.

24 MS. ANDERL: Ms. Smith, when you refer to
25 the FCC rule are you referring to that paragraph 968?

1 MS. SMITH: No, 967.

2 MS. ANDERL: Thank you.

3 Q. Would you agree or would you accept subject
4 to check that several commenters to the federal
5 rulemaking expressed a specific concern regarding U S
6 WEST's attempted withdrawal of Centrex service?

7 A. Yes, I would agree.

8 Q. Would you please turn to page 21 of your
9 rebuttal. At lines 13 through 14 you discuss MCI's
10 definition of unbundled Centrex Plus services. Were
11 you referring to the testimony MCI submitted in this
12 docket?

13 A. Yes.

14 Q. Do you agree with the testimony filed by
15 MCI as to the unbundled network elements necessary in
16 order for a reseller to provide Centrex-type service?

17 A. I am going to have to assume that MCI knew
18 what they were talking about when they discussed the
19 elements that they needed to provide Centrex service,
20 yes.

21 Q. I would like to direct your attention back
22 to Exhibit 2C which was your confidential Exhibit A to
23 your direct testimony. And under the resold Centrex
24 line column there's a line titled Demand Stimulation.
25 Could you explain the purpose of that adjustment?

1 A. Yes. In previous dockets that had been
2 done on Centrex resale, there had been brought forward
3 that frequently because the reseller can offer a
4 reduction to the customer that the customer would
5 order additional Centrex lines than they actually
6 would have disconnected from 1FB service. So, for
7 example, if a customer had four 1FB lines at the time
8 they disconnected those and went to resold Centrex
9 they may purchase five lines, and so what I used in
10 order to be very conservative and give the benefit of
11 the doubt to revenue that could occur over Centrex
12 resale we did include a stimulation factor and this is
13 a factor that had been used or factors in this
14 neighborhood had been used in previous dockets.

15 Q. And a demand stimulation factor listed on
16 this exhibit is 1.2; is that correct?

17 A. Yes, that is.

18 Q. And would that mean a 20 percent
19 stimulation effect?

20 A. Yes.

21 Q. And where did that number come from?

22 A. That number came from research that had
23 been done in various dockets in the state of Iowa and
24 the state of Minnesota.

25 Q. Is it the company's position that when

1 price -- when prices change for services demand
2 stimulation or repression should be recognized in the
3 calculation of revenue effects?

4 A. I think it would depend on the service and
5 the likelihood of the stimulation occurring or
6 depression occurring, depending on which way the rate
7 was going.

8 Q. Could you look at Exhibit 18C and that
9 would be the attachment A to 18C?

10 MS. ANDERL: If I may.

11 (Discussion off the record.)

12 Q. Referring you to attachment A to AT&T, on
13 that exhibit the company indicates significant growth
14 in Centrex station lines from 1994 to June of 1996?

15 A. Yes.

16 Q. What is this growth attributed to?

17 A. Primarily this growth is attributed to the
18 fact that we had several other Centrex products where
19 customers had until either their contract finished or
20 until May of 1995 to convert to Centrex Plus, and so
21 primarily this growth in lines we believe is, at least
22 by our retail customers, is contributed to the
23 conversion of those customers from Centron, Centrex,
24 Centriflex, to the Centrex Plus product. In addition,
25 there has been some growth of the resale lines as

1 indicated. I have another exhibit that probably shows
2 that.

3 MS. SMITH: If I could have a moment,
4 please, before I ask you the next question.

5 Q. Ms. Baird, I would like to show you the
6 company's response to MFS's data request No. 2.
7 Comparing that document with Exhibit 18C, the number
8 of station lines for other customers in 18C is
9 different than the number of other customers in MFS
10 response No. 2; is that correct?

11 A. Yes. I'm not sure what they ask for
12 because sometimes they ask for all Centrex products
13 and sometimes they ask for just Centrex Plus, so I
14 would probably need to see the question to confirm
15 that that's part of the difference. In response to
16 the question about the numbers are different, in the
17 first data response, AT&T 18, which is 18C, it says
18 that current Centron numbers are not included in these
19 counts. On the MFS 01002 it says that the data for
20 1993 includes Centron information for those customers
21 who converted in 1994 to Centrex Plus. So it does
22 look like they're slightly different questions and
23 slightly different data.

24 Q. Thank you.

25 MS. ANDERL: Your Honor, so the record is

1 complete, this MFS data request No. 2 has been
2 referred to. It's not on the record. It would be our
3 intent to offer it on redirect unless staff wished to
4 offer it now.

5 MS. SMITH: Staff doesn't have any desire
6 to offer the exhibit.

7 JUDGE WALLIS: Very well.

8 Q. Referring you back to Exhibit 18C.
9 Assuming that the rate case order were in effect, is
10 this the number of lines that the Commission-ordered
11 \$2 increase in NAC rates would apply to?

12 A. Yes. That would be my understanding.

13 MS. ANDERL: I'm sorry, what number are you
14 referring to?

15 MS. SMITH: The total Centrex Plus lines in
16 June of 1996.

17 MS. ANDERL: Thank you.

18 Q. And during the same period from 1994 to
19 June of 1996, did the company experience any loss of
20 1FB lines?

21 A. I'm not aware of the answer to that
22 question.

23 Q. Going back to page 17 of your direct
24 testimony, and this is beginning at line 15, you state
25 that the termination liability charges are waived when

1 customers convert to other U S WEST services. Will
2 the termination liability be waived if the customer
3 chooses to receive services from resellers or
4 alternative local exchange carriers?

5 A. Yes, it would be.

6 Q. Would you agree that the tariff revisions
7 do not include waiver -- would you agree that the
8 tariff revisions that the company filed do not
9 specifically include waiver of liability for customers
10 switching to resellers or alternative local exchange
11 companies?

12 A. While it was our intent to include that, I
13 can see where it's not as clear as it could be, yes.

14 Q. Would you amend that tariff filing?

15 A. U S WEST would be willing to amend the
16 tariff filing to reflect that when a customer
17 converted to any service, be it a U S WEST service or
18 a service provided by another provider, that the
19 termination liabilities would be waived.

20 MS. SMITH: That's all we have.

21 JUDGE WALLIS: Let's be off the record for
22 just a moment for a scheduling discussion.

23 (Discussion off the record.)

24

25

1 CROSS-EXAMINATION

2 BY MS. MARCUS:

3 Q. Good morning, I'm Roselyn Marcus, and I
4 represent the Washington State Department of
5 Information Services, a large customer of U S WEST not
6 a reseller. So my questions are going to be regarding
7 your testimony for existing customers.

8 A. Okay.

9 Q. Turning to page 11 you begin to describe
10 alternative services for existing customers. Do you
11 see that?

12 A. Yes, I do.

13 Q. And one of the alternatives you have stated
14 are alternative local exchange providers who provide
15 Centrex services themselves; is that correct?

16 A. Yes.

17 Q. Would you agree that there is no one
18 alternative local exchange provider which offers
19 Centrex service in all of the U S WEST exchanges in
20 Washington?

21 A. I don't know if I can agree to that only
22 because in work that I have done in Oregon where one
23 company indicated they would be using the switch in
24 Washington to provide local service in Oregon, so
25 that's leading me to believe that companies can use a

1 single switch and reach a very large geographical
2 area, and so therefore they may very well be able to
3 do statewide in Washington.

4 Q. Do you agree that currently, however, there
5 is no one provider offering Centrex service in all of
6 U S WEST's regions in Washington?

7 A. I would agree that there are providers who
8 have Centrex service. I would agree they have
9 statewide certification. Whether they have made
10 business plans to reach any particular central office
11 or location in the state, I do not know their
12 particular business plans.

13 Q. Are you aware of any alternative local
14 exchange provider who currently offers Centrex service
15 in the city of Olympia?

16 A. Once again, I believe, and I always hate
17 when I'm speaking for another company, but I
18 understand that TCG does provide Centrex service. I
19 am not sure where. In addition ELI provides Centrex
20 service. I am not aware of how large a geographical
21 area they're willing to provide that. I don't know
22 the particular business plans.

23 Q. On page 15 of your testimony you begin to
24 discuss the grandfathering limitations. And on page
25 17 you discuss the waiver of termination of liability

1 charges?

2 A. Yes.

3 Q. Is the waiver of termination liability
4 charges also going to apply if a customer extends a
5 current contract and then terminates an extended
6 contract before its termination date?

7 A. I'm not aware that there would be any
8 limitations. If I can restate here. If a customer
9 had a contract, they renewed that contract, that
10 renewed contract had termination liability language,
11 would that also be waived, yes. If the customer
12 disconnects their service and goes to any service,
13 even that of another provider, the termination
14 liabilities would be waived. The only exception I
15 know of is if in that extension the customer asked us
16 to do some -- extend additional capital because of
17 some special assembly requirements, of course there
18 may be an addition or exception to that.

19 Q. On page 17, beginning at line 22 you begin
20 to discuss the limitations on additional common
21 blocks. Do you see that?

22 A. Yes, I do.

23 Q. Am I correct that there is no government
24 exception to the limitation on additional common
25 blocks?

1 A. No. My understanding is, and I believe it
2 would be probably more completely described in the
3 tariff, that there is an exception for government
4 agencies who need to realign responsibilities.

5 Q. And that would be for additional common
6 block lines?

7 A. Yes. It would be for additional common
8 blocks and, of course, if you have a common block
9 you're probably going to need some additional station
10 lines and features to go with that.

11 Q. In looking at the additional location
12 limitation, and, as you just mentioned, the government
13 exception applies to, as you stated on page 18,
14 beginning on line 11, this exception applies -- also
15 applies to realignments between government entities?

16 A. Yes.

17 Q. And in the actual tariff it states that the
18 exception would apply as part of plans to realign
19 government functions. Could you explain what would be
20 included in this exception?

21 A. I think it probably would have to be an
22 individual case basis they were occurring but an
23 idea might be perhaps where currently a state agency
24 is providing a service. Perhaps it's medical service
25 or crisis center services. Then those services are

1 now going to be the responsibility of each individual
2 county so in that realignment of responsibilities
3 instead of the single location you may need multiple
4 locations in many counties, so I would think that
5 would be an example.

6 Q. Would this realignment have to be some kind
7 of statutory change in an agency's responsibility or
8 is it just an agency's decision regarding its
9 responsibilities?

10 A. I am not aware -- I don't believe that U S
11 WEST contemplated that it would take a statutory
12 change. It would be just a necessary change in
13 government to realign those responsibilities. It may
14 be by statute. It may be by business decisions that
15 the agency has made.

16 Q. In continuing to look at what this
17 exception includes, if a state agency leases
18 facilities and the lease ends so the state agency
19 finds a new location and leases a new building, would
20 that be covered by the government realignment
21 exception?

22 A. Boy, I am thinking that that would probably
23 come under a move requirement or whatever the options
24 are for moving. If you were in building A and your
25 lease expired and you went to building B, I would

1 think that would come under the grandfathered terms
2 and conditions around moves.

3 Q. Which then for government agencies, am I
4 correct, would be none, so if the additional station
5 lines or an additional common block was needed the
6 government would not be or that state agency would not
7 have the access to that exception and would be
8 prevented from adding those station lines?

9 A. Not necessarily, because you look back on
10 the common block, Centrex Plus customers may vacate
11 and move locations which may require a common block to
12 be changed. However, no additional common blocks
13 would be added as a result of the move. So obviously
14 you could do a move under the grandfathered terms and
15 conditions. It just could not add an additional
16 common block, but in your example it sounds like you
17 had a common block, were using it at one location, now
18 you need to use it at a different location, and yes,
19 that would be permitted in the terms and conditions.

20 Q. If in this move the state agency needed to
21 add a common block, then am I correct that they would
22 not be able to do so because that would not be
23 included in the government realignment exception?

24 A. Yes. Once again, not knowing all of the
25 particulars around what led to the move, but yes.

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1 Q. If an agency in one location grew so large
2 that it had to move half of its employees out of that
3 location and add a new location --

4 Are you following that example?

5 A. Yes, I got it.

6 Q. -- would that be covered by the government,
7 what I am calling the government realignment
8 exception?

9 A. You know, once again, if it was just pure
10 -- and once again, I am hesitating to be perceived as
11 a single person who is making the decisions on when
12 something would be approved or not. Obviously it
13 would take work with the product management,
14 understanding the alignment and perhaps even legal
15 advice as far as the interpretations of the tariff
16 provisions, but I am going to say generically it would
17 be my understanding if it was a move associated with
18 purely growth one wouldn't necessarily need a new
19 common block. In fact, I would think that it's
20 possible you would want to use the existing common
21 block so that maybe more easy in inter-communications,
22 but that if you had a common block change solely due
23 to the expansion of locations as a result of the move
24 then it would probably not be permitted under these
25 exceptions. However, once again, I have to indicate

1 there's a lot of caveats around that.

2 Q. And putting the issue of whether they would
3 need a new common block -- let's say you did not need
4 a new common block for the additional location --
5 there is still a limit on 20 new locations annually;
6 is that correct?

7 A. That is correct, except for the exceptions
8 that we previously discussed.

9 Q. And in that case this additional new
10 building due solely to growth would not be included in
11 the government realignment exception?

12 A. That's correct. It would be one of those
13 20 additional locations permitted.

14 MS. MARCUS: I have nothing further.

15 JUDGE WALLIS: Let's take a seven or eight
16 minute recess now and try and be back here by 10
17 after.

18 (Recess.)

19 JUDGE WALLIS: Let's be back on the record,
20 please. Ms. Siegler Miller.

21 MS. SIEGLER MILLER: Thank you, Your Honor.

22

23 CROSS-EXAMINATION

24 BY MS. SIEGLER MILLER:

25 Q. Good morning, Ms. Baird.

1 A. Good morning.

2 Q. I want to go backwards for just a small
3 amount of time and sort of follow up from the
4 Department of Information Services' questions. You
5 had a discussion with Ms. Marcus about her large
6 customers impacts in this filing. Would such a large
7 customer take both PBX or Centrex services?

8 A. They may. Many customers do have PBX and
9 key systems behind Centrex service.

10 Q. Would you agree that the number of PBX
11 trunks are typically less than the equivalent number
12 of Centrex lines needed to serve an equivalent number
13 of stations?

14 A. Yes. I would say that's generally true.
15 If I had to put an analogy of PBX trunks they're
16 usually more related to a number of NARs that a system
17 may have because they're used to access the public
18 switched network just like a NAR.

19 Q. So if a PBX provider -- if someone who had
20 been using PBX switched to Centrex the number of new
21 lines installed would exceed the number of PBX trunks
22 displaced, would it not?

23 A. I would say generally that's true, yes.

24 Q. What would you estimate then would be the
25 factor of Centrex line versus PBX trunks?

1 A. Once again, it depends on the individual
2 customers and they can be anywhere as we indicated
3 that on the reseller NAR three and a half to one
4 Centrex lines would lead you to believe there would be
5 three and a half PBX trunks. However, in work that
6 I've seen done I would say generically retail
7 customers are somewhere between eight and ten to one.

8 Q. Would you then agree that stimulation would
9 increase? What would be the stimulation factor in
10 that case?

11 A. That would actually be a reduction because
12 if we had ten Centrex lines and it was replaced with
13 one PBX trunk that would not be in what I would
14 consider stimulation. That would be an out-and-out
15 reduction.

16 Q. But vice versa?

17 A. Excuse me?

18 Q. If you were going from one PBX trunk, would
19 you go to ten Centrex station lines?

20 A. On a very large system that would be true.
21 Once again, we're talking in general here and in a
22 very small system that probably wouldn't be true. If
23 you think about it if you have five phones and one
24 line only one person can talk so 20 percent trunks to
25 stations is not reasonable when you're small.

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1 However, if you're a very, very large system that
2 would be overkill because, once again, if you had 100
3 stations they would be able to be served very handily
4 by 20 trunks. So, once again, we can talk general but
5 it comes down to actual engineering for actual
6 customers to come up with a number.

7 Q. But you did agree, did you not, that the
8 estimate for the factor of Centrex lines versus PBX
9 trunks would change in that scenario?

10 A. Yes, and I was speaking generally as it
11 relates to the large and medium and government
12 customers that purchase Centrex and I guess I didn't
13 want to -- when you started getting it down to talking
14 about one single trunk then that's where I got
15 concerned that could be misleading.

16 Q. Let me direct your attention to Exhibit A
17 which is now 2C, Exhibit A to your direct testimony
18 which is Exhibit 2C.

19 A. Yes.

20 Q. Would you accept that that 1.2 demand
21 stimulation figure there is appropriate for
22 calculations concerning only 1FB not complex lines
23 also?

24 A. I would say that that -- I'm not sure that
25 I would agree with that. I would think that it may be

1 reasonable for both. Once again, I think going back
2 to what my -- what I was thinking of at the time I put
3 the stimulation factor in here is I wanted to
4 acknowledge that in previous dockets that U S WEST has
5 worked with there has been a stimulation factor
6 identified, and I wanted to identify that factor to
7 make sure that I identified all of the revenues that
8 may result from a resold Centrex line. I wasn't
9 taking this factor beyond that into any particular
10 service or particular customer or particular scenario,
11 be it 1FB, be it complex, be it PBX trunks. I think
12 in those dockets it was indicated that while the
13 majority of the customers who go from -- go to resold
14 Centrex previously had 1FB service, a very small
15 percentage of them may have had complex or PBX service
16 even.

17 Q. So you would agree, then, primarily the
18 stimulation factor is based on 1FB service?

19 A. Yes. That's my understanding of the vast
20 majority of customers.

21 Q. Thank you. Ms. Baird, in your direct
22 testimony at page 15, lines 2 through 9, you describe
23 how customers were advised that when their current
24 Centrex service contract expired they would be
25 required to convert their service to Centrex Plus or

1 an alternative service; is that correct?

2 A. Yes.

3 Q. I would like you to turn your attention to
4 Exhibit 13, and I would like you to read for us
5 paragraphs 2 and 4.

6 A. Would you let me know which one that is?

7 Q. February 5 letter.

8 A. Yes, thank you. That's 13. Which one did
9 you want me to read?

10 Q. Paragraphs 2 and 4.

11 MS. ANDERL: Your Honor, may I ask, is
12 there any reason they need to be read into the record
13 since the document is already an exhibit and admitted?

14 MS. SIEGLER MILLER: Well, the document as
15 far as I know has been identified but not yet
16 admitted. Oh, okay I see. Then there is no need to
17 read it out loud.

18 A. I will indicate that in putting it in
19 context that the question you just asked me about is
20 talking about the original Centrex, Centriflex and
21 Centron customers. That question about how are
22 customers affected does not talk about Centrex Plus
23 customers which is primarily the customers that
24 received the February 5 letter so I did want to put
25 that in context for you.

1 Q. What would be different?

2 A. What would be different is that U S WEST
3 has several grandfathered Centrex products in our
4 tariffs today that new customers cannot purchase them,
5 and in fact some of those products like Centrex has
6 been grandfathered for over 14 years, Centriflex for
7 over nine would indicate that --

8 MS. SIEGLER MILLER: Excuse me, Your Honor,
9 if I may. I wasn't very clear in that question.

10 Q. What would be the difference in notifying
11 customers that they would need to take a new product?

12 A. There would not -- there would not be a
13 difference in the need to notify them that they need
14 to take a new product.

15 Q. Thank you. I would then like you to look
16 at Exhibit 14.

17 MS. ANDERL: Your Honor, this document has
18 not yet been admitted and perhaps we need to discuss
19 relevance at this time.

20 JUDGE WALLIS: Were you able to accomplish
21 the discussion?

22 MS. ANDERL: Ms. Siegler Miller and I
23 haven't had a chance to talk.

24 JUDGE WALLIS: Very well.

25 Q. If you would, I would like to direct your

1 attention to paragraph 2 in the last sentence. Would
2 you please read that?

3 MS. ANDERL: Well, Your Honor, I think we
4 have -- I have a question as to relevance on this
5 before the witness starts reading it into the record.

6 JUDGE WALLIS: Yes.

7 MS. SIEGLER MILLER: My response to that,
8 Your Honor, is that these first four documents to
9 which I am having Ms. Baird refer reflect U S WEST's
10 back and forth position as to whether a replacement
11 product is available, and I just wanted to
12 substantiate on the record that there is written
13 materials that reflect a change in position about
14 that. It's not a big controversial issue.

15 JUDGE WALLIS: Let's see if it is.

16 MS. ANDERL: Well, I guess the issue in
17 this docket is not whether or not U S WEST has a
18 replacement product in the offing, and what positions
19 U S WEST might have or might not have taken regarding
20 a replacement product don't seem to me to have any
21 particular bearing on whether or not U S WEST's tariff
22 filings in this case should be approved or not. I
23 don't think it's relevant.

24 JUDGE WALLIS: I know that that is your
25 position, Ms. Anderl, but I also recognize that other

1 parties are basing their case on other theories, and I
2 do believe that this is relevant to an alternative
3 theory and I will allow the exhibit and I will allow
4 counsel to pursue it.

5 (Admitted Exhibit 14.)

6 MS. SIEGLER MILLER: Thank you, Your Honor.

7 Q. Returning then to Exhibit 14, I ask you to
8 read the last sentence in paragraph 2.

9 A. "A new service will be available to you
10 within six to nine months that will meet your ongoing
11 telecommunications needs."

12 Q. And now referring to Exhibit 15, this is a
13 partial response by U S WEST to a data request
14 propounded by MFS asking whether U S WEST had plans to
15 offer a replacement product. Could you please read
16 this response?

17 A. Yes. "U S WEST currently has no plans to
18 introduce a Centrex Plus like replacement product in
19 Washington." So it is stressed that it's specific to
20 the state of Washington.

21 Q. Thank you. And finally on Exhibit 16, this
22 represents a data request by Frontier Telemanagement
23 asking why there may have been a difference between
24 U S WEST answers, and could you please read for us the
25 response of U S WEST.

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1 A. Yes. "U S WEST is still developing a
2 replacement service for Centrex Plus. However, it has
3 not been fully determined where and when the service
4 will be made available. The response to MFW was made
5 after that to AT&T and reflects USWC's current
6 thinking given decisions in the UT-950200 rate case.
7 The replacement service for Centrex Plus is still
8 under development and changes are frequently being
9 made." U S WEST further states that "USWC does not
10 release data on products that are not complete and
11 ready to be introduced."

12 Q. Thank you, Ms. Baird.

13 MS. SIEGLER MILLER: I would like to move
14 to admit Exhibits 14 through 16, please.

15 JUDGE WALLIS: Those documents have been
16 received.

17 Q. Ms. Baird, is it U S WEST's position today
18 as we are here that its response to FTM 2-008 would be
19 the same?

20 A. Yes.

21 Q. Ms. Baird, is it not true that U S WEST
22 revenues from 1FB service will be subject to
23 competition from facilities-based providers of Centrex
24 like services?

25 A. Yes.

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1 Q. And is it not true that 1FB service will be
2 subject to competition from facilities providers of
3 other services?

4 A. Yes.

5 Q. Thank you. I would like you to turn your
6 attention to Exhibit 17C, please. And this is a
7 confidential document so I will work hard not to
8 reveal any confidential information.

9 A. Is that the MFW 01008?

10 Q. Correct. These exhibits attempt to show
11 the difference between actual resale versus the
12 projected resale of lines and revenues; is that
13 correct?

14 A. Yes.

15 Q. And in the figures associated with the
16 total annual column -- do you see those on pages 1 and
17 2 of --

18 MR. HARLOW: 2 and 3 you mean?

19 MS. SIEGLER MILLER: Pages 1 and 2 of
20 attachment A which is two pages.

21 Q. Are those revenues net of commissions paid
22 for the sale of U S WEST services?

23 A. Commissions were not -- since we did not do
24 -- since this tariff filing is to withdraw the service
25 not to change the rates of the product we did not

1 include or do an analysis of the commissions paid.

2 Q. And do you know, are commissions paid on
3 the sale of Centrex services?

4 A. I believe they used to be. I am not sure
5 that that is true today.

6 Q. Would they be taken out of the calculation
7 of these revenues that we see here?

8 A. Once again, this is a calculation of
9 revenues not the contributions or costs associated
10 with the revenues, so once again I think we're talking
11 apples and oranges there.

12 Q. But these are net revenues, correct?

13 A. These are just the gross revenues, the
14 revenues to be received. Net implies that cost had
15 been removed, and cost had not been removed from these
16 numbers.

17 Q. Do you know whether U S WEST pays
18 commissions to companies like FTI to resell Centrex
19 service?

20 A. I know that in the past U S WEST has had
21 agency agreements where there have been commissions
22 paid for the sale of our services. Whether or not FTI
23 was one of those I don't know.

24 Q. Do you know whether that arrangement is
25 still in existence?

1 A. I believe there may have been some changes
2 in that arrangement.

3 Q. So you don't know?

4 A. I don't know but I believe there have been
5 changes.

6 Q. I would like to turn your attention back to
7 Exhibit 18C. Does this document -- and I am looking
8 specifically now at the attachment A to that exhibit
9 -- does this document indicate to you that since the
10 first year of its offering Centrex services have
11 increased?

12 A. Yes, it does, but as I previously indicated
13 many of these may very well be the result of
14 conversions from Centrex, Centron or Centriflex to the
15 Centrex Plus product.

16 Q. But nevertheless they are Centrex related
17 products; is that correct?

18 A. Yes, that is correct.

19 Q. Can you tell me what the percentage of
20 increase from the year 1993 through June '96 is?

21 A. I did not do the percentage but, as I
22 indicated, this has conversions from similar products,
23 and we do believe overall Centrex has had a reduction
24 as a product line.

25 Q. Would you agree subject to check that the

1 percentage of increase in total Centrex Plus customers
2 from 1993 to June '96 is 331 percent?

3 A. Yes.

4 Q. According to this attachment?

5 A. Yes, and the fact that it does reflect
6 conversions of existing Centrex products to the
7 Centrex Plus product.

8 Q. And would you agree that, subject to check,
9 that the rate of growth indicated by this attachment
10 is 86 percent?

11 A. Yes, once again, with the understanding
12 that it does include customers who have migrated at
13 the end of their contracts from other Centrex products
14 to Centrex Plus. This is not truly new customers who
15 went to Centrex Plus from some other nonCentrex
16 product.

17 Q. Nevertheless, it does reflect Centrex
18 users, correct?

19 A. Yes.

20 MS. ANDERL: Objection, asked and answered.

21 Q. At page 10 of your rebuttal, lines 1
22 through 8, you describe how U S WEST's market power
23 decreases due to the withdrawal of Centrex. You go on
24 to explain that this is because -- excuse me, I strike
25 this. This question has been asked and answered.

1 Just one follow-up question about 18C.

2 Would you agree that this exhibit shows an increase in
3 resold Centrex lines from the years 1993 to mid June
4 1996?

5 A. Yes.

6 Q. Thank you very much. Turning your
7 direction to page 6 of your direct testimony,
8 beginning at lines 18 and continuing to the next page.
9 You allege that U S WEST loses switched access
10 revenues as a consequence of reseller's aggregation of
11 toll and bypass of U S WEST's system; is that correct?

12 A. Yes.

13 Q. Is it your contention that U S WEST
14 receives no intraLATA toll or switched access revenues
15 in Centrex resale?

16 A. U S WEST believes generally we receive very
17 little. There may be a small amount of overflow used
18 for engineering design purposes, but generally
19 resellers do bypass U S WEST intraLATA toll and
20 switched access services.

21 Q. So the answer to the question was?

22 A. Yes.

23 Q. Yes, you receive access revenues?

24 A. We may receive a very small amount of
25 overflow revenues.

1 Q. But you do receive switched access
2 revenues. Are you aware that the FCC is going to be
3 dealing with the issue of switched access revenues in
4 a separate proceeding?

5 A. Yes.

6 Q. Is it your anticipation that switched
7 access rates will fall as a consequence of that
8 proceeding?

9 A. I believe, while I don't represent switched
10 access so I am not an expert in it, it is my
11 understanding that there is some discussions that the
12 switched access reform could take some of the current
13 subsidies out of switched access. Therefore, yes, it
14 seems likely there could be a reduction.

15 Q. So your answer to the question is yes?

16 A. Yes.

17 MS. ANDERL: Could I ask counsel to please
18 let the witness finish her answer.

19 JUDGE WALLIS: Ms. Siegler Miller, I would
20 like to have the court reporter be able to take down
21 the witness's complete answer, and I would ask you not
22 to begin your question until the answer is completed.

23 MS. SIEGLER MILLER: I appreciate that,
24 Your Honor. I would ask that you perhaps direct the
25 witness when she can to answer yes or no to a fairly

1 straightforward question.

2 JUDGE WALLIS: If you have an objection to
3 the witness's response you can take that up.

4 MS. SIEGLER MILLER: Thank you.

5 Q. Do other customers besides Centrex
6 resellers aggregate traffic and use special access
7 rather than pay for switched access?

8 A. Yes. Large PBX and large Centrex customers
9 can do that.

10 Q. So in fact aggregation of traffic is not
11 uncommon among large business customers of U S WEST?

12 A. No, it's not uncommon. However, there
13 have traditionally been different rules for
14 business customers and customers who are
15 telecommunications providers.

16 Q. Thank you. At page 11, lines 4 through 3
17 of your direct and then again at -- in your rebuttal
18 testimony at page 2 and again at page 5, you state
19 that there will be a large array of resale services at
20 wholesale rates and unbundled interconnection elements
21 available to people like my client; is that correct?

22 A. Yes.

23 Q. Do you know, has U S WEST reached any
24 permanent interconnection agreement with any party
25 under the federal act in Washington?

1 A. Not that I am aware of.

2 Q. Do you know whether the company has reached
3 any permanent resale agreements with any party under
4 the act in Washington?

5 A. Not that I am aware of.

6 Q. At page 11, lines 19 through 23 of your
7 direct testimony, you state that local exchange
8 providers with their own central office switches may
9 offer Centrex and that these are viable alternatives.
10 Is that correct?

11 A. Yes.

12 Q. I would like to direct your attention to
13 Exhibit 19C, please. Attachment A of that exhibit,
14 the chart indicates all the central offices in
15 Washington state that make available Centrex Plus type
16 services; is that correct?

17 A. Yes.

18 Q. Do you know of any alternative supplier
19 that offers Centrex services in all of the locations
20 listed in that attachment?

21 A. As I indicated before, that in work that
22 I've done when it became apparent that at least a
23 small number of providers thought that they could use
24 switches from another state to provide local exchange
25 service in a nearby state, it leads me to believe that

1 they feel they can economically use a centralized
2 central office to provide a service for a large
3 geographical area, so they may very well choose to do
4 that in this case.

5 JUDGE WALLIS: Ms. Baird, I am going to ask
6 you to listen carefully to the question and respond to
7 the question, and then if you feel that you need to
8 explain your answer you may go ahead and do that.

9 THE WITNESS: Thank you.

10 MS. SIEGLER MILLER: Thank you, Your Honor.

11 Q. Let me ask the question again. Do you know
12 of any alternative supplier that offers Centrex
13 services in all of the locations listed in attachment
14 A?

15 A. I believe that TCG and ELI have statewide
16 certifications to provide service. In theory they
17 could provide their services of which Centrex is one
18 in any central office.

19 MS. SIEGLER MILLER: Your Honor, I am going
20 to object to that answer as being nonresponsive to the
21 question. The question was whether she knew if any
22 single provider offered Centrex in all of the
23 locations listed in attachment A. I believe it calls
24 for a yes or no answer.

25 MS. ANDERL: Well, Your Honor, attachment A

1 describes U S WEST's central offices. Obviously only
2 U S WEST is going to offer services out of U S WEST
3 central offices. Perhaps if she wishes to clarify the
4 question to indicate that she's asking whether
5 service is offered or whether the witness knows if
6 service is offered statewide by another carrier, but
7 certainly it's a little confusing at best to try to
8 correlate another carrier's service offerings to U S
9 WEST's central office locations.

10 JUDGE WALLIS: I do believe that we are
11 retreading ground that has been trod to some extent
12 already, and I do think that Ms. Siegler Miller is
13 entitled to a yes or no answer. The witness, to my
14 recollection, has stated her explanation to that
15 answer and she may refer to that if she does continue
16 to believe that that's the explanation. She needn't
17 state it again in detail.

18 MS. SIEGLER MILLER: Your Honor, I would
19 like to move to strike the prior responses, though, as
20 nonresponsive to my question.

21 JUDGE WALLIS: That's denied. So, Ms.
22 Baird, what's the answer? Yes or no?

23 THE WITNESS: My understanding is that
24 there are -- I'm sorry, yes or no, I'm sorry, Your
25 Honor. Yes, I believe there are providers who are

1 willing to provide Centrex service statewide.

2 MS. SIEGLER MILLER: I repeat my objection
3 as nonresponsive, Your Honor.

4 JUDGE WALLIS: Do you want the question
5 repeated, Ms. Baird?

6 THE WITNESS: Yes, I better have it
7 repeated.

8 JUDGE WALLIS: Ms. Siegler Miller, do you
9 want to do the honors?

10 Q. The question is do you know of any
11 alternative supplier that offers Centrex services in
12 all of the locations associated with each and every
13 central office listed in attachment A?

14 A. No, I do not know definitive plans of other
15 providers.

16 Q. Thank you very much.

17 JUDGE WALLIS: Again, Ms. Siegler Miller,
18 please don't step on the witness's answer.

19 MS. SIEGLER MILLER: I apologize.

20 Q. Like to turn your direction to Exhibit
21 20C, please. The attachment to that data request
22 propounded by AT&T shows a chart entitled Competitive
23 Benchmarking Analysis. Do you see that?

24 A. Yes, I do.

25 Q. Can you please read for us under the column

1 of secondary competitor, competitive access providers,
2 to the far right the weaknesses that U S WEST has
3 listed in this document?

4 A. The specific far right, the secondary
5 competitor? "Lack of ubiquity, lack of brand
6 awareness, lack of significant existing customer
7 base."

8 Q. Thank you. And these are weaknesses that
9 U S WEST projects that competitors and competitive
10 products have?

11 A. Yes. However, I would point out that this
12 was done prior to the Telecommunications Act of '96
13 and the FCC report and order.

14 Q. At page 15 of your rebuttal testimony,
15 lines 1 through 7, you compare the number of small
16 business customers taking customized call management
17 services or CCMS services with those taking Centrex
18 Plus. Do you see that?

19 A. Yes, I do.

20 Q. Do the figures that appear there at lines 4
21 and 5 include the small business end users that are
22 resellers customers?

23 A. No, I do not believe they do.

24 Q. From a reseller perspective is CCMS a
25 higher priced product than the current Centrex

1 offering?

2 A. From a resell perspective I would guess
3 that it is a higher product, yes.

4 Q. And is CCMS unamenable to the aggregation
5 of different customers by resellers?

6 A. The CCMS product does not include a common
7 block so it doesn't tend to have the same aggregation
8 opportunities.

9 Q. Thank you. Do you know of any
10 technological reasons why today's Centrex product
11 could not coexist with a new product developed by U S
12 WEST to replace Centrex?

13 A. Not a technical one other than as it
14 relates to interfaces. U S WEST is going to have some
15 responsibilities to provide interfaces to our
16 provisioning systems. It would be very difficult and
17 expensive to have provisioning for different versions
18 of a product and it would be probably technically and
19 definitely economically more feasible to provide those
20 kind of interfaces to a single product.

21 MS. SIEGLER MILLER: Your Honor, I am going
22 to object again that that was nonresponsive to the
23 question.

24 MS. ANDERL: Your Honor, I believe she did
25 respond to the question and offered a legitimate

1 explanation with it.

2 JUDGE WALLIS: My recollection is that the
3 answer was responsive and then explanatory.

4 MS. SIEGLER MILLER: Thank you. That's all
5 I have.

6 JUDGE WALLIS: Very well. Are there other
7 questions? Mr. Harlow? Let's be off the record for
8 just a minute.

9 (Lunch recess taken at 12:00 p.m.)

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AFTERNOON SESSION

2

1:20 p.m.

3

JUDGE WALLIS: Let's be back on the record,
4 please, following our noon recess. During the recess,
5 Ms. Anderl has distributed a corrected document which
6 I understand to be a proposed substituted exhibit 2C.
7 Ms. Anderl.

8

MS. ANDERL: Yes, Your Honor. During
9 staff's cross there was some questions raised by
10 Exhibit 10C which was the backup data that was
11 provided in response to a data request, backup to 2C,
12 and those questions led us to over the lunch hour
13 check the mathematics and check the numbers on this
14 attachment A to Ms. Baird's direct testimony which is
15 identified as Exhibit 2C and we realized that there
16 was an error which Ms. Baird can explain, and I just
17 proposed to withdraw the 2C and substitute this
18 corrected one.

19

JUDGE WALLIS: Is there any objection to
20 that proposal?

21

MR. HARLOW: Your Honor, I think this
22 should be handled on redirect, and I would like to
23 hear the foundation.

24

MS. ANDERL: I am happy to do that. My
25 only purpose in doing this now was to enable as many

1 counsel as could to have an opportunity to cross on
2 the new document since we're not through with cross
3 yet but I'm happy to handle it on redirect.

4 JUDGE WALLIS: Mr. Harlow, are you
5 anticipating that you would have any questions on
6 that?

7 MR. HARLOW: I really can't say until I
8 hear the foundation of what the changes were.

9 JUDGE WALLIS: Then perhaps it would be
10 tidier to have that now and then other questions if
11 other counsel have them can be asked on it and we
12 don't have to do it on redirect and get another round
13 in there unnecessarily. Very well. Ms. Anderl.

14 MS. ANDERL: Ms. Baird, during the lunch
15 hour did you have occasion to examine your Exhibit 2C
16 and the backup data which is contain in Exhibit 10C?

17 THE WITNESS: Yes. I had an opportunity
18 during the lunch hour to try and confirm the
19 mathematical calculation on 3 of 8 and 10C did not
20 match the calculation on my Exhibit A, so what I did
21 was attempted to discover whether the error was in the
22 exhibit or in the backup calculations, so I contacted
23 the U S WEST individual who had the backup data. We
24 went through the backup data and it became apparent
25 that the summary sheets were created on a 14-state

1 basis, and inadvertently the weighted business line
2 rated with CALC from Utah next door to Washington had
3 been supplemented on my Exhibit A, so in fact the
4 backup information was correct. My Exhibit A was
5 incorrect. I would now like an opportunity to correct
6 my Exhibit A because subsequently obviously I have
7 received this new information that my Exhibit A was in
8 error. So the correct number should be the --

9 JUDGE WALLIS: The figure that's on this
10 now corrected.

11 MS. ANDERL: And so then if further
12 clarification is necessary, the calculation that's
13 shown or the numbers that are shown on page 3 of 8,
14 Exhibit 10C, those are the correct numbers for
15 Washington?

16 THE WITNESS: That is correct.

17 JUDGE WALLIS: Very well. Is there any
18 objection to the withdrawal of the former Exhibit 2C
19 and the substitution of this document?

20 MR. HARLOW: May I voir dire briefly?

21 JUDGE WALLIS: Yes.

22 MR. HARLOW: Do Exhibits 10C and 11C
23 constitute the correct backup for the proposed revised
24 Exhibit 2C?

25 THE WITNESS: Yes.

1 MR. HARLOW: So those numbers are correct
2 in 10 and 11.

3 No objection.

4 JUDGE WALLIS: Anyone else have an
5 objection or desire to voir dire?

6 MS. THOMAS: Brief voir dire, your Honor.
7 Do you know if any other exhibits were prepared at the
8 same time as Exhibit 2C that might contain a similar
9 error?

10 THE WITNESS: I am not aware of any that
11 would contain a similar error because, once again,
12 what happened was that this original sheet, the backup
13 for this was put together on a 14-state basis and we
14 were mathematically able to track the previous number
15 that was on this page by just seeing clearly that on
16 the spreadsheet that had all 14 states that the wrong
17 rate for Utah had been used instead of the Washington
18 rate, so I don't believe -- I would hope that error
19 has not occurred on any other document I had.

20 MS. THOMAS: As far as you know, no other
21 documents that have been made exhibits in this
22 proceeding were prepared on the same basis using the
23 same backup data?

24 THE WITNESS: I think it's a fair question.
25 If I can understand your question, has the data on the

1 corrected 2C, should it also correct any other data
2 that has been done, and I think there is at least one
3 other data request that does have this number used,
4 so, yes, there may need to be a correction on another
5 interrogatory. I think in fact I may.

6 MS. THOMAS: I guess I would just ask in
7 some fashion the company correct whatever related
8 errors appear in any of the exhibits.

9 MS. ANDERL: Your Honor, to the extent that
10 data request 10C also contains this Exhibit A as the
11 first page and then the backup data as the rest of it
12 and contains this same error, we will file a
13 substituted corrected page to that exhibit 10C.

14 JUDGE WALLIS: Very well. There is no
15 objection to the substitution; is that correct?

16 MR. HARLOW: Excuse me, Your Honor.

17 JUDGE WALLIS: Then the substituted
18 document is allowed. Mr. Harlow.

19 MR. HARLOW: I'm sorry, I understood we
20 were going to include this in addition to. I would
21 like to have both the original and the substitution or
22 the new one on the record.

23 JUDGE WALLIS: What's the purpose of
24 retaining the original, Mr. Harlow?

25 MR. HARLOW: Well, there's so many

1 different numbers. We have one number in the
2 original, another number in the revised, another
3 number in Exhibit 10C and another number in Exhibit
4 11C, and I intend to argue that this is so confusing
5 the Commission couldn't give much weight to it because
6 the company can't even reconcile its own numbers.

7 MS. ANDERL: Well, Your Honor, that's just
8 ridiculous. We admitted that we made an error.
9 Anybody who looks at these documents sees that the
10 error once corrected is in our favor. We never would
11 have submitted the original documents incorrectly if
12 we had an opportunity to show a larger arbitrage,
13 which is what these documents show. You know, all we
14 want to do is make the record clear and correct, and
15 if Mr. Harlow gets his way the record will be
16 confusing and I think unnecessarily so.

17 JUDGE WALLIS: I believe based on what Mr.
18 Harlow said that he's going to argue not that the
19 incorrect numbers should have been correct or that the
20 number itself has any value but merely that there was
21 a difference, and I think that's abundantly clear from
22 the record and certainly does not foreclose your
23 argument, so on that basis I think that the
24 substitution should be allowed.

25 MS. ANDERL: Thank you.

1 JUDGE WALLIS: Now, Mr. Harlow.

2 MR. HARLOW: Thanks to the lunch break I've
3 been able to trim it down.

4

5 CROSS-EXAMINATION

6 BY MR. HARLOW:

7 Q. Good afternoon, Ms. Baird. My name is
8 Brooks Harlow. I represent intervenors MCI
9 and Metronet Service Corporation. First of all, are
10 you familiar at all with Metronet?

11 A. I am generally familiar with Metronet.
12 I've had an opportunity to review some of their
13 marketing brochures.

14 Q. In reviewing those marketing brochures, did
15 you see anything that indicated how Metronet handles
16 its toll services?

17 A. I don't remember specifically reading about
18 toll services.

19 Q. You use the term in your testimony, talked
20 about bypassing U S WEST's toll and U S WEST's access
21 charges. Are you familiar with whether or not
22 Metronet does that?

23 A. I don't know particularly about Metronet.

24 Q. Are you aware of any resellers or rebillers
25 that do not bypass U S WEST toll or access charges?

1 A. In the previous work I've done with
2 resellers in various states I am not aware of any that
3 did not bypass U S WEST other than in one case in a
4 hearing in Colorado I believe one intervenor did
5 indicate that they do occasionally have a common block
6 that they may not do bypass on, so that was some
7 indication, but there may be a rare exception.

8 Q. Are you aware that in Washington the
9 private line NAC rates mirror the Centrex Plus NAC
10 rates?

11 A. Yes, I am aware that's an objective to have
12 them mirror each other.

13 Q. You're aware that those private line
14 NAC rates are also distance-sensitive rates?

15 A. Yes, I am.

16 Q. And are you aware that this filing does not
17 propose to make any changes in the private line NAC
18 rates?

19 A. Yes, I am.

20 Q. Are you aware of any other docket where U S
21 WEST is proposing to change the private line NAC rates
22 in Washington?

23 A. I am not aware of any.

24 Q. Like to direct your attention to page 19 of
25 your direct testimony. Particularly the question

1 beginning on line 20 and the answer beginning on line
2 22.

3 A. Yes.

4 Q. Are you intending in that testimony to be
5 giving a legal opinion?

6 A. No. I was attempting to describe from my
7 perspective what I thought would be the impact of
8 grandfathering terms and conditions on Centrex
9 contracts. I was not doing a legal opinion.

10 Q. You were giving your understanding, in
11 other words?

12 A. Yes, I am.

13 Q. Is it your understanding that the company
14 is asking the Commission to take any action which
15 would constitute a modification of existing contracts
16 in between the company and customers for Centrex Plus
17 service?

18 A. I am not aware if there would be change to
19 the contracts or not. I do know that many of the
20 contracts that the company does enter into do indicate
21 if there are regulatory changes due to Commission
22 orders that can change the contracts, so I am aware
23 that the potential exists, but I am not aware that
24 that was our intent in this case.

25 Q. So it's your understanding that was not

1 your intent in this case?

2 A. My understanding is basically what's stated
3 here, that our intent was not to change the rates of
4 any of the contracts for our customers. However, the
5 changes in the terms and conditions of the tariff on
6 how the service is provided have been changed.
7 Obviously we would have to look at any particular
8 contract to see if that's an issue or not as it
9 related to changes in terms and conditions how they
10 are treated.

11 Q. Do you have any understanding as to whether
12 or not the Commission in Washington is empowered to
13 modify existing contracts between a regulated utility
14 and a customer?

15 A. I am not aware if they have the authority
16 to change contracts. I do know that they have the
17 authority to approve and review contracts.

18 Q. You're aware, I take it, that the Centrex
19 Plus features are classified as competitive services
20 by this Commission?

21 A. Yes.

22 Q. Is the company requesting Commission
23 approval for the price list changes to the
24 competitively classified Centrex Plus features?

25 A. In this particular filing U S WEST was not

1 asking for any rate changes either on the tariff or
2 the price-listed pages.

3 Q. I'm sorry. For some reason that's not
4 making sense to me. Maybe I missed it so forgive me
5 if I plow over the same ground. You say you're not
6 asking for tariff or price-listed changes, you mean
7 the rates?

8 A. Right.

9 Q. You are asking for approval to change
10 tariff conditions?

11 A. That is correct, to add the grandfathering
12 language.

13 Q. Are you asking the Commission for approval
14 to make price list changes, changes to conditions?

15 MS. ANDERL: Well, Your Honor, I think that
16 the filing in February speaks for itself. Perhaps if
17 he's directing the witness to a particular provision
18 in that filing it would be helpful. This is getting
19 dangerously close to asking her for a legal analysis
20 so I will object.

21 MR. HARLOW: Certainly if the witness has
22 the filing available and wants to refer to it, I don't
23 object.

24 MS. ANDERL: Is there a provision in the
25 filing you're asking her about?

1 MR. HARLOW: She hasn't indicated any
2 problem with my questioning yet so I think we're
3 getting ahead of ourselves.

4 JUDGE WALLIS: Do you have any particular
5 provision in mind, Mr. Harlow?

6 MR. HARLOW: I don't think it is in the
7 filing, and I am simply trying to confirm that for the
8 record, clarify that, so I couldn't point to anything
9 in the particular filing. The advice is Exhibit 12, I
10 believe.

11 A. Can I restate to make sure I understand
12 your question?

13 Q. Is the company asking for Commission
14 approval for changes to its Centrex Plus price list?

15 A. Versus just simply to the Centrex Plus
16 tariff?

17 Q. Yes.

18 A. I would have to take and review the filing
19 because I know there can be state differences in how
20 tariffs versus price lists are treated, and I am not
21 that familiar in the state of Washington with that, so
22 if I could have a minute to review it?

23 Q. Sure.

24 A. Looks like the filing does include changes
25 to the exchange and network services tariff, and there

1 may very well be changes to the U S WEST price list,
2 but without those pages in front of me I am unable to
3 definitively answer the question.

4 Q. Thank you for checking. On page 24 of your
5 rebuttal testimony you refer to the Metronet brochure,
6 and that was Exhibit 7, regarding Metronet clients who
7 save over \$8 million. Do you recall that testimony?

8 A. Yes, I do.

9 Q. It's my understanding from your prior
10 testimony that you haven't done any study of any
11 comparable U S WEST cost increases or decreases
12 relating to the statement by Metronet?

13 A. That is correct.

14 Q. And I take it you haven't done any study on
15 the overall effect of U S WEST's revenues as a result
16 of Metronet's operations?

17 A. No, I have not.

18 Q. Are you aware that Metronet has been in
19 business rebilling Centrex type services since 1985 in
20 Washington?

21 A. I believe in the brochure it talks about
22 the period of time. I'm not sure if -- it's a
23 reasonable period of time.

24 Q. Over the ten-year period, then, roughly
25 that's \$800,000 a year if you can accept that subject

1 to check?

2 A. Yes.

3 Q. Do you have any basis to state that that
4 \$8 million savings didn't get all plowed back into U S
5 WEST based on the 1.2 stimulation factor?

6 A. No, I would not have any basis.

7 Q. Turn please to Exhibit 12, sheet 13.8. Do
8 you see at the top there under D1 Centrex Plus network
9 access channel, per location?

10 A. Yes, I do.

11 Q. Are you aware that subsequent to this
12 filing the Commission ordered the pricing basis to
13 change to a per system basis?

14 A. Yes, I am.

15 Q. Assuming that the Commission were to
16 approve this filing, would U S WEST object to changing
17 that to per location in this advice?

18 A. I'm sorry, can you restate your question.
19 Does U S WEST have any concerns about changing the
20 Centrex Plus network access channel, changing the per
21 location and making it per system?

22 Q. Yes. Assuming that the Commission's rate
23 case is upheld on appeal.

24 MS. ANDERL: Your Honor, I think that goes
25 way beyond the scope of this proceeding. I object.

1 She's not here to testify about that. I think it's
2 unfair to expect her to be able to give an answer
3 about that.

4 JUDGE WALLIS: Does the company have a
5 response as to whether the proposal that Mr. Harlow
6 has identified would be conformed with the result of
7 whatever happens in the proceeding relating to these
8 tariffs?

9 MS. ANDERL: If Mr. Harlow is asking if we
10 will file tariffs in accordance with the Commission
11 order, I guess the answer is yes. Whether we like it
12 or not I guess is another question.

13 JUDGE WALLIS: Thank you.

14 MR. HARLOW: At this point that's all I
15 have for now. I would like to reserve the right to
16 recall Ms. Baird tomorrow. We served a couple of data
17 requests on U S WEST. The responses were due today.
18 We received partial responses but there's some
19 material I understand being Fed Exed or faxed.

20 MS. ANDERL: They're being messengered to
21 the Commission here for delivery to you before the
22 end of the day.

23 MR. HARLOW: And I may or may not have
24 a little more cross based on the materials I receive
25 later today.

1 JUDGE WALLIS: Your concern is noted. Very
2 well. Mr. Posner.

3 MR. POSNER: Thank you, Your Honor.

4

5 CROSS-EXAMINATION

6 BY MR. POSNER:

7 Q. Afternoon, Ms. Baird.

8 A. Good afternoon.

9 Q. I'm Morton Posner representing MFS
10 Intelenet of Washington. Ms. Baird, is U S WEST
11 withdrawing Centrex service -- Centrex Plus service in
12 all of its 14 states?

13 A. Yes.

14 Q. And you testified earlier that you have
15 appeared either giving prefiled testimony or live
16 testimony in a number of U S WEST states regarding
17 Centrex Plus grandfathering, correct?

18 A. Yes.

19 Q. And which state specifically is Centrex
20 Plus grandfathering that you've testified in?

21 MS. ANDERL: Your Honor, I'm concerned here
22 that the parties have made extensive representations
23 to this Commission that they've coordinated their
24 cross-examination and clearly this is a question the
25 answer to which is already on this record.

1 MR. POSNER: Simply laying a foundation.

2 JUDGE WALLIS: If the answer is already on
3 the record you needn't ask the question and get the
4 same answer again.

5 MR. POSNER: Very well, Your Honor.

6 Q. Ms. Baird, has a state regulatory body that
7 has considered Centrex Plus grandfathering accepted
8 U S WEST's tariff filing?

9 MS. ANDERL: Objection, Your Honor. I
10 believe that any other state's action is irrelevant to
11 what the Commission is going to decide in this
12 proceeding. I don't know how it could make any
13 difference.

14 JUDGE WALLIS: The objection is the same
15 one that was posed to some of the testimony that was
16 overruled and this objection also is overruled. To
17 the extent the witness knows the answer.

18 A. I am not aware that any Commission has
19 approved the withdrawal of Centrex Plus.

20 Q. How long has U S WEST offered Centrex Plus
21 service in the state of Washington?

22 A. I believe it was in the 1994 time frame
23 that it was introduced.

24 Q. And as part of its overall business
25 strategy, U S WEST has chosen to grandfather Centrex

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1 Plus in Washington in that time?

2 A. Yes.

3 Q. Is it common in the telecommunications
4 industry to grandfather products that a carrier
5 offers?

6 A. I think that grandfathering is a common
7 industry practice. I personally have never worked in
8 the carrier part of the company to say definitively
9 which services have been grandfathered. I know some
10 of the feature groups, such as feature group A and I'm
11 not sure in the C and D there may have also been some
12 type of grandfathering there.

13 Q. Would you agree or disagree that it is
14 common in the telecommunications industry to
15 grandfather an obsolete telecommunications service?

16 A. I would say it is common to grandfather an
17 obsolete telecommunications service.

18 Q. And how would you define obsolete?

19 A. I think obsolete can be defined by a
20 variety of ways. There's obviously technologically
21 obsolete. There can be economically obsolete, and it
22 can be obsolete based on rules or orders that may
23 occur about the way in which we offer a service. I
24 think that's an example of the types of obsolescence
25 that could occur.

1 Q. And would it be normal in the
2 telecommunications industry to introduce a replacement
3 product service feature, functionality, whatever, for
4 an obsolete product if that product is being
5 grandfathered?

6 A. I think frequently there are alternatives
7 that are introduced. However, it's not a given that
8 alternatives are always introduced that are from U S
9 WEST, and I can think of examples if you would like me
10 to explain those.

11 Q. Well, could you explain for me specifically
12 what it is about Centrex Plus service that makes it
13 obsolete in Washington since 1994?

14 A. Specifically U S WEST is concerned about
15 the arbitrage potential with the Centrex product. In
16 addition, we developed Centrex Plus to specifically
17 meet the needs of our large business and government
18 customers and as PBXs have become much more
19 aggressive, much more digital features, many more
20 features as it relates to data communications, it's
21 apparent to meet the evolving needs of our business
22 customers we would need to change the Centrex product,
23 and that's one of the things we are investigating.

24 Q. So is it correct to say that U S WEST
25 chooses to grandfather Centrex Plus service in

1 Washington because of concern for arbitrage?

2 A. Yes, that is definitely one of the reasons
3 why we grandfather the product.

4 Q. You have your direct testimony in front of
5 you?

6 A. Yes, I do.

7 Q. I would like to direct your attention to
8 page 5, the sentence on lines 9 and 10 where it says,
9 "ALECs can order unbundled services at rates very
10 close to cost and they can resale" -- I believe that's
11 an error, it should be resell -- "service at rates
12 less of avoided costs."

13 A. I'm sorry, page?

14 Q. I'm looking at your rebuttal. I apologize.

15 A. Rebuttal testimony?

16 Q. No. I do mean the direct. I misdirected
17 myself.

18 MS. ANDERL: What's the page reference,
19 please.

20 MR. POSNER: Page 5 of the direct
21 testimony.

22 JUDGE WALLIS: Let's be off the record for
23 a minute.

24 (Discussion off the record.)

25 JUDGE WALLIS: Mr. Posner, do you want to

1 restate your question.

2 MR. POSNER: Yes, please.

3 Q. Directing your attention to page 5 of your
4 direct testimony where you state that local exchange
5 business lines contribute to lower residential rates.
6 I believe this is the question. The answer to the
7 question that starts at line 12. Do you see that?
8 I'm sorry, lines 23 and 24 going on to the first line
9 of page 6 of the direct.

10 A. Yes, I do see it now.

11 Q. Is it a correct statement of your testimony
12 that U S WEST charges a local exchange business line
13 rate which contributes to lower residential rate?

14 A. Yes. In general I believe that
15 historically local exchange business lines, features
16 and toll have been priced at a rate that has a subsidy
17 that supports lower residential rates.

18 Q. And it's also your testimony that resellers
19 allegedly could exploit a price differential between
20 business and residential rates by reselling Centrex
21 Plus; is that correct?

22 A. Yes. Although I didn't specifically speak
23 of residential rates. The focus of my testimony was
24 on business rates, yes.

25 Q. Does U S WEST make a profit on its offering

1 of Centrex Plus service?

2 MS. ANDERL: Objection, Your Honor. The
3 costs of Centrex Plus and whether or not it recovers
4 its costs and how profitable the product is is not at
5 issue in this proceeding.

6 MR. POSNER: I disagree, Your Honor. There
7 is testimony from this witness that there is a concern
8 about what U S WEST calls arbitrage, the resale of its
9 services by clients like mine, and we also have
10 testimony that business rates subsidize residential
11 rates and we also have testimony that U S WEST is
12 concerned that the purported arbitrage will cause a
13 migration to other services and it will lose revenue.
14 I couldn't think of anything more relevant than
15 whether or not U S WEST is going to have profit and
16 revenue.

17 JUDGE WALLIS: Well, there is kind of a
18 fine line that I see and so far we've just been
19 talking revenues. If we start to talk in terms of the
20 of profit that gets us into cost studies and that may
21 be a path down which some of us fear to tread, and if
22 you could get an answer sufficient to your client's
23 needs without getting it in terms of profit that would
24 be my first preference. If it is absolutely essential
25 to use that word then it would certainly be my

1 intention to stop the inquiry at about that point so
2 that we don't get into technical costing areas.

3 MR. POSNER: Let me attempt to rephrase the
4 question.

5 Q. Does U S WEST offer Centrex Plus service
6 over its incremental cost of providing that service?

7 MS. ANDERL: Objection, Your Honor.
8 Incremental cost, I mean, we're getting even further
9 down the road to cost studies if he wants to ask these
10 kinds of cost questions.

11 MR. POSNER: If I could get an answer to
12 that very limited question I would be satisfied.

13 MS. ANDERL: Well, I think that there is no
14 foundation. There is no testimony from this witness
15 on which you can ask that kind of a question.

16 MR. POSNER: I simply don't see how we can
17 have testimony about arbitrage if there's no margin.

18 JUDGE WALLIS: Well, I think that you
19 certainly would be entitled to argue that if you wish,
20 but I am going to sustain the objection in that
21 there's nothing in the record so far that does start
22 us down the road of technical cost information and I
23 believe that question would do that, so on that basis
24 I'm going to sustain the objection.

25 MR. POSNER: Very well. Thank you.

1 Q. Ms. Baird, it's your testimony that U S
2 WEST believes that PBX service would be a substitute
3 for Centrex Plus service?

4 A. Yes.

5 Q. And would you agree that PBX service
6 requires an investment in equipment for customers that
7 use it?

8 A. It may. Frequently PBXs are available on
9 a leased basis.

10 Q. Would you agree that for most customers
11 using PBX service, purchasing the equipment, that this
12 would represent a very large upfront capital
13 investment for those customers?

14 A. Yes, there may be a capital investment.

15 Q. And would you agree that this capital
16 investment if it were to become obsolete that it could
17 become obsolete due to advances in technology, et
18 cetera?

19 A. Yes.

20 Q. And would you agree that a weakness of PBX
21 service as a substitute for Centrex Plus service is
22 that an end user's capital investment could become
23 obsolete?

24 A. Yes. I would agree that a PBX investment
25 could become obsolete. Whether it becomes obsolete in

1 the relevant economic life of the equipment or not
2 would be another issue.

3 Q. Assuming a hypothetical where the life of a
4 service was two years, would obsolescence of a service
5 after two years represent a risky capital investment?

6 A. Yes, it may, but if the payback period of
7 making that investment, is it still a wise investment
8 in a year or two years, a company may choose to do
9 that.

10 Q. But it would depend on --

11 A. Yes. It would depend on the equipment in
12 the industry, such as the computer industry they have
13 eight to nine months life cycles on which they have to
14 recover investment, so, once again, I think that
15 there's a lot of examples of technical versus economic
16 obsolescence.

17 Q. Ms. Baird, would you agree that a benefit
18 to Centrex Plus service is that the relevant equipment
19 is located at a central office and not at the
20 customer's premises?

21 A. Yes, that can be a benefit for customers.

22 Q. And that a benefit of Centrex relative to
23 PBX is the ability of a customer not to make the
24 upfront capital investment?

25 A. Yes. That may be a benefit but, you know,

1 overwhelmingly PBX has a very large percentage of the
2 market so it must not be a concern to the majority of
3 customers.

4 Q. I would like to direct your attention to
5 what has been marked as Exhibit 23 for identification.

6 A. No, I'm sorry I do not --

7 MS. ANDERL: Your Honor, this is one of the
8 exhibits that hadn't yet been admitted. I had wanted
9 to have an opportunity to talk to Mr. Posner about --
10 all we ask is that the entire 18-page document be
11 offered and admitted. It was a document that was
12 provided in response to a data request in this
13 proceeding, I believe, to AT&T.

14 JUDGE WALLIS: Mr. Posner, do you have any
15 objection to that?

16 MR. POSNER: Yes. I agree that this
17 particular page is within U S WEST's response to AT&T
18 data request. I've become aware that it's AT&T's
19 request No. 8. I would oppose U S WEST's suggestion,
20 and I would call the Commission's attention to Exhibit
21 20C which has been admitted in evidence. This is the
22 very same data request. FTI has sponsored it for a
23 single page and U S WEST made no similar objection.

24 MS. ANDERL: Yes, Your Honor. I missed
25 that, I'm sorry. I did notice it after it was

1 admitted and decided I would make my motion once
2 rather than twice.

3 JUDGE WALLIS: Apart from general context,
4 is there anything in the remainder of that document
5 that you feel colors the page in question?

6 MS. ANDERL: It is a whole document, and I
7 believe that in fairness that the page should be
8 considered in context rather than pulled out.

9 MR. HARLOW: Your Honor, in fairness to the
10 other intervenors we need to see what we're talking
11 about because some of us may want to object to the
12 rest of the document.

13 JUDGE WALLIS: Is there a copy of the
14 document in the room today?

15 MR. POSNER: Yes, Your Honor.

16 JUDGE WALLIS: Very well. I'm going to
17 defer a ruling on this and just want to offer for
18 folks's edification my observation is that insofar as
19 possible my preference that the record not be
20 encumbered with material that's not directly relevant,
21 and so if it is directly relevant, Ms. Anderl, I hope
22 you will be able to make that point. So let's go
23 ahead with the examination subject to a motion to
24 strike and we'll make a ruling on the document after
25 the break.

1 MS. ANDERL: Well --

2 JUDGE WALLIS: After you've had a chance to
3 take a look at it, we've all had a chance to take a
4 look at it, and we can argue it knowledgeably.

5 MR. POSNER: Just for clarification, Your
6 Honor, will we be circling back to that area or are we
7 now providing it to the witness?

8 JUDGE WALLIS: Does the witness have a copy
9 of the single-page document marked as Exhibit 23?

10 THE WITNESS: I don't have the single page.

11 MS. ANDERL: Business and government
12 services Centrex Plus PBX?

13 THE WITNESS: I don't believe this is the
14 same page.

15 JUDGE WALLIS: Off the record.

16 (Discussion off the record.)

17 JUDGE WALLIS: Let me clarify that the
18 witness does have that document in front of her; is
19 that correct?

20 THE WITNESS: Yes.

21 Q. Ms. Baird, is Exhibit 23 for identification
22 a part of a U S WEST response to AT&T data request No.
23 8?

24 A. Is it 23 or 22? I'm sorry.

25 Q. 23.

1 A. Yes. My understanding is it's part of an
2 AT&T data request that asked for a complete study and
3 so it's a single document out of an 18-page report.

4 Q. And is this a summary of the relative
5 strengths and weaknesses of PBX service relative to
6 Centrex service?

7 A. Yes.

8 Q. And would you agree that this document
9 shows that a strength of PBX service for those
10 customers that use it -- I'm sorry -- that a strength
11 of Centrex Plus service for those customers that use
12 it is that they do not need to make a large upfront
13 capital investment and that later technological
14 advances will not render Centrex obsolete?

15 A. I am not sure I see the part about the no
16 capital investment. They make capital investment and
17 sell Centrex.

18 Q. The right column, first item under
19 weaknesses.

20 A. I'm sorry. I'm trying to find the part
21 where -- weaknesses of PBX, I'm sorry. I thought you
22 said strength of Centrex. Is it the weakness of the
23 PBX?

24 Q. Correct.

25 A. Okay. Weakness of PBX, yes, to buy large

1 capital investment and lead time for new PBXs nine
2 months to a year and installed to medium size PBXs
3 this may be a nonissue.

4 Q. And now directing your attention to the
5 bottom half of the page, the strength of Centrex
6 service, seven items down. You agree that this U S
7 WEST response states that Centrex service is strong
8 relative to PBX because there is less risk of
9 obsolescence?

10 A. Yes.

11 MR. POSNER: Your Honor, I would move the
12 admission of this exhibit.

13 JUDGE WALLIS: I'm going to reserve ruling
14 on that until we have an opportunity to examine the
15 document from which it's taken and hear any arguments
16 as to inclusion of the entire document.

17 MR. POSNER: Thank you, Your Honor.

18 Q. I would like to direct your attention now
19 to your rebuttal testimony, Ms. Baird, and hopefully I
20 will direct myself properly. Page 4 of the rebuttal
21 testimony, line 15. The sentence starting on line 15
22 where you state that "there will be ample
23 opportunities for these providers" -- that is, ALECs
24 -- to use other U S WEST retail products and services
25 for resale to utilize unbundled U S WEST service

1 elements." I believe you said in Ms. Siegler
2 Miller's cross-examination there are no U S WEST
3 interconnection agreements with co-carriers in this
4 state; is that correct?

5 A. Correct. However, there are arbitration
6 and negotiations in effect and an order should be out
7 shortly in the arbitration proceedings.

8 Q. Are those arbitrations the result of a
9 breakdown in negotiations with those carriers?

10 MS. ANDERL: Your Honor, I object. I think
11 that the arbitrations are a result of the federal act,
12 speak for themselves as to why they take place and
13 clearly had the negotiated agreement been reached
14 neither party would have sought an arbitration.

15 MR. POSNER: I will withdraw the question,
16 Your Honor.

17 Q. What did you mean when you said that there
18 will be ample opportunity for ALECs to resell U S WEST
19 services?

20 A. What I had in mind at the time I said this
21 was the fact that U S WEST is being directed to make
22 all of its retail products available for resale, and
23 in fact I believe even in the state of Washington
24 WN 35, generic resell tariff, has been put in place.
25 That is what I had in mind at the time I wrote this.

1 Q. And not unbundled network elements that
2 would be offered for resale as a result of
3 arbitration?

4 A. Yes. That would be another item going on
5 to utilize unbundled network service element. U S
6 WEST will unbundle the elements as required in the
7 FCC report and order. I'm sorry, when I responded I
8 thought you meant just the part about the resale of
9 retail products and that's how it's written in my
10 testimony.

11 Q. On page 5 of your rebuttal, the sentence at
12 line 9 and 10, "ALECs can order unbundled services at
13 rates very close to cost." Do these rates exist yet?

14 A. My understanding is that there have been
15 rates that had been filed. We had done some
16 interconnection tariffs. I believe those are
17 currently -- I don't know if suspended is the correct
18 word but they are not currently in effect as the
19 negotiations and arbitrations that we talked about are
20 underway.

21 Q. So an arbitration resolution would set
22 those rates but they're not yet available?

23 A. Not for all the components. Some
24 components may be available such as our private line
25 NAC and et cetera.

1 Q. Would you turn to page 1 of your rebuttal
2 testimony, please. The sentence that starts on line
3 10, "There is nothing in the withdrawal of the Centrex
4 Plus service product to prevent these parties" --
5 ALECs -- "from marketing and selling their competitive
6 alternatives." That sentence. Could you clarify that
7 statement for me? Do you mean to say that there are
8 no restrictions on ALECs other than those that are
9 found in U S WEST's grandfathering proposal?

10 A. What I had in mind at the time I wrote this
11 in my testimony is that there's nothing to stop these
12 other parties to sell a Centrex Plus service if they
13 would like to self-provision it themselves or purchase
14 Centrex service from another provider who is a
15 facility-based provider of Centrex service.

16 Q. But if an ALEC is going to resell U S
17 WEST's Centrex Plus service they are going to be
18 subject to a proposed cap on growth; is that correct?

19 A. Yes, that is correct.

20 Q. On page 16 of your rebuttal testimony, Ms.
21 Baird. The question at line 10. "Does U S WEST
22 intend to leave grandfathered Centrex Plus customers
23 stranded? Absolutely not." Would you clarify that
24 for me? Do you mean present U S WEST Centrex Plus
25 customers or new customers?

1 A. I would hope that U S WEST has no plans to
2 strand either our existing Centrex customers or future
3 Centrex customers. U S WEST wants to work to develop
4 and introduce products that meet the needs of our
5 customers and be able to fairly compete in the new
6 local exchange competitive environment, and I believe
7 we are very committed to doing that.

8 Q. If I were a business customer today and I
9 wanted to purchase U S WEST Centrex Plus service,
10 would I be able to do so?

11 A. Not at this time.

12 Q. Would I be able to do so if the Commission
13 approves U S WEST's tariff?

14 A. Thank you very much. I meant to have that
15 caveat. If there is an approval of our proposal to
16 withdraw Centrex Plus then Centrex Plus would not be
17 available to new customers.

18 Q. I would like to direct your attention to
19 page 19 of your rebuttal testimony. It's the question
20 that starts on line 2 about the impact of the FCC's
21 August 8, 1996 interconnection order. You state in
22 your answer to that question that you do not believe
23 that the FCC considered resale of Centrex to be
24 essential to local exchange competition because the
25 FCC did not release any rules regulating it. Is that

1 a correct summary of that testimony?

2 A. Yes. That is, that when it was brought to
3 their attention, the U S WEST grandfathering of
4 Centrex Plus, that they did not specifically identify
5 that Centrex Plus was essential to local exchange
6 competition.

7 Q. I'm sorry, did they say that it wasn't
8 essential or did they simply not issue any rules on
9 it?

10 A. They did not issue any rules on it.

11 Q. Your testimony, the way I read your
12 testimony, and you will correct me if I'm wrong, I
13 read it to say that the FCC's failure to issue any
14 rules on this topic shows that it did not believe it
15 to be essential to local competition?

16 A. Yes, that I believe that if the FCC thought
17 that the future of local competition depended on
18 Centrex Plus services they would have mentioned that
19 in the rules.

20 Q. On what basis do you conclude that the FCC
21 delegation of this issue to the states evidences the
22 FCC's regard that it does not consider the issue to be
23 essential?

24 A. I believe -- and once again, I'm not a
25 legal person -- as a lay person's opinion that the FCC

1 identified that the states had more experience in
2 understanding and dealing with the withdrawal of
3 products and services and they've left it to the
4 states to determine the withdrawal of any particular
5 service including Centrex Plus.

6 Q. My final question, Ms. Baird. Does U S
7 WEST's Centrex Plus offering cover what U S WEST
8 considers to be its costs of providing that service?

9 MS. ANDERL: Your Honor, same objection.

10 JUDGE WALLIS: Mr. Posner, same ruling.

11 MR. POSNER: Very well. I have nothing
12 further, Your Honor.

13 JUDGE WALLIS: Are there other questions on
14 cross?

15 MS. THOMAS: Yes, a few.

16

17 CROSS-EXAMINATION

18 BY MS. THOMAS:

19 Q. Good afternoon. I'm Liz Thomas
20 representing Shared Communications Services another
21 reseller of --

22 (Discussion off the record.)

23 Q. Ms. Baird, could I ask you to please turn
24 to page 5 of your prefiled direct testimony. The last
25 sentence on the page begins, "For example,

1 historically local exchange business lines, features
2 and toll have been priced at a rate that allows a
3 contribution to support lower residential rates."

4 When you say historically, do you mean in the past?

5 A. Yes.

6 Q. What portion of the past do you have in
7 mind?

8 A. I have the long and short-term in the past,
9 and as even identified when the FCC released its press
10 release on its rules that, too, had identified that
11 many of these products did offer a contribution.

12 Q. The FCC didn't look at that question
13 specifically in the state of Washington, did it?

14 A. No, it did not.

15 Q. Are you aware of any recent pronouncement
16 on the part of this Commission that local exchange
17 business lines were priced at a rate that allowed a
18 contribution to be support lower residential rates?

19 A. Not aware of something that specific.

20 Q. Do you believe that's the case today?

21 A. I believe that generally business services,
22 the features, particularly the central office
23 features and toll, have been priced at a rate that
24 does provide a handsome contribution to our shared and
25 common costs and that allows then the residential

1 rates to be lower. Yes I do believe that.

2 Q. You said they have been priced. Do you
3 believe that today's price allows for a contribution
4 to support lower residential rates?

5 A. Yes, I do believe that.

6 Q. Do you believe that that would be the case
7 after the implementation of the order that came out of
8 the rate case?

9 A. I am not that familiar with all of the
10 details of the rate case so I would be hesitant to
11 make an opinion.

12 Q. Subject to check do you believe that would
13 be the case?

14 MS. ANDERL: Well, Your Honor, I think
15 we're getting fairly far beyond the scope of this
16 witness's direct testimony. Clearly the testimony at
17 page 5 going on to page 6 was in the way of
18 background and introduction, and I don't think it's
19 proper to cross her on the rate case orders since
20 that's not what she's here to testify about.

21 JUDGE WALLIS: I am a little bit concerned
22 about questioning her on a rate case order that has
23 not yet been entered.

24 MS. THOMAS: If I may respond, my purpose
25 here is to get an understanding of the words that

1 she's used. She says historically there was a
2 contribution and then she draws a conclusion about
3 what's going to happen in the future, and whether the
4 past remains true today is relevant, I think, to the
5 conclusion that she draws. I think the testimony
6 explains one of U S WEST's purported reasons for
7 wanting to withdraw the tariff, and I think that the
8 parties are entitled to inquire into the soundness of
9 the conclusions that are drawn.

10 JUDGE WALLIS: I think you're absolutely
11 correct, but I still don't think the question that was
12 asked is a permissible question.

13 Q. Like to ask you to turn your attention to
14 the sentence that begins at the top of page 6. You
15 say, "if a significant loss of business exchange
16 lines, features and toll and of switched access
17 associated with interLATA toll traffic were to result
18 from Centrex resale." Do you know whether such a
19 result would actually occur from Centrex resale?

20 A. Yes. U S WEST does believe that when
21 Centrex Plus is resold that we have a loss of business
22 exchange lines, features, toll and switched access.

23 Q. You go on to say, "This contribution would
24 be greatly reduced." Do you know whether the
25 contribution would in fact be the result given that

1 you're not clear on whether the contribution exists
2 once the rate case order has been implemented?

3 A. I am reluctant to provide testimony about
4 the impacts of the rate case because I am not
5 knowledgeable enough about all of the possible impacts
6 of the rate case.

7 Q. So then is it fair to say that we don't
8 know whether the contribution would even exist in the
9 first place once the rate case order has been
10 implemented?

11 A. I think that it may be -- that it could be
12 true that the impact of the rate -- that the rate case
13 order could impact on the contribution on any
14 individual product. Whether it affected the overall
15 contribution of the corporation from the sum total of
16 those products, I don't know. I am assuming that
17 would depend on what the final result of all of the
18 rate case orders, appeals, stays and reviews that
19 could occur.

20 Q. Like to turn now to a totally different
21 area. Earlier in your testimony today I think you
22 mentioned that alternative exchange carriers had
23 received authority to provide local exchange service
24 throughout the state. Is my recollection correct?
25 You said something along those lines?

1 A. Yes.

2 Q. But you don't know where alternative
3 carriers are actually offering service today, do you?

4 A. No, other than in my testimony we had that
5 document where we talked about some of the contracts
6 that had been filed so that gives us some indications
7 of where locations might be, but I do not know all of
8 the locations.

9 Q. So you can't say with certainty in which
10 locations alternate local exchange service is
11 available to resellers of Centrex Plus service; is
12 that correct?

13 A. That is correct.

14 Q. Like to ask you to turn again to Exhibit
15 13. That was the letter dated February 1996. The
16 fourth paragraph down says, "U S WEST will introduce a
17 new product within the next six to nine months." As
18 of February 1996, do you know what the parameters of
19 that new product were expected to be?

20 A. I have some generic and general information
21 about the new product, yes.

22 Q. What information do you have about it?

23 MS. ANDERL: I object, Your Honor. I don't
24 see what the information about the new product was in
25 February and what this witness's knowledge of that was

1 has to do with this proceeding. I mean, I think we've
2 made it clear that the new product has not yet been
3 offered, if it will be, and it's simply not an issue
4 in this docket.

5 JUDGE WALLIS: Ms. Thomas.

6 MS. THOMAS: Yes. It seems to me that an
7 important issue in this case is what if any
8 alternatives are available to the current Centrex Plus
9 service, and in weighing U S WEST's interests in
10 withdrawing service against the public interest's in
11 having the service remain available for resale or
12 otherwise, it seems important to know what
13 alternatives one can reasonably expect to be
14 available, and I believe that the advice filing came
15 reasonably close on the heels of this February 1996
16 letter and therefore knowing what the product was
17 designed to be as of February 1996 relates closely to
18 the advice filing.

19 JUDGE WALLIS: I am awfully concerned that
20 what existed at that time and what the witness thought
21 at that time really is not relevant to reality right
22 now, and I would also think that if the company fails
23 to demonstrate what alternatives it proposes that that
24 would reflect upon its case and not your client's, so,
25 I would tend, I think, to sustain the objection.

1 Q. At this point in time, Ms. Baird, is it
2 fair to say that U S WEST may not offer any new
3 product as a substitute for Centrex Plus?

4 A. As it relates to the state of Washington,
5 yes, that may be correct.

6 Q. Might that also be correct as it relates to
7 the state of Oregon?

8 MS. ANDERL: Objection as to relevance.

9 MS. THOMAS: Well, Exhibit 14 references
10 both states together as if they were being addressed
11 in tandem.

12 JUDGE WALLIS: Still I think that we have
13 no power over what happens in Oregon and sometimes we
14 have trouble enough keeping track of what goes on in
15 Washington, so my preference would be to confine it to
16 Washington.

17 MS. THOMAS: I will move on.

18 JUDGE WALLIS: Speaking only for myself and
19 not the Commissioners.

20 MS. THOMAS: Of course.

21 Q. I would like to ask you to turn to Exhibit
22 15, and there's a reference there to a Centrex
23 Plus like replacement product. The word "Centrex Plus
24 like" in that document, would that refer to a central
25 office-based switching service with a standard feature

1 package of optional calling features?

2 A. I don't know if I could go as far as to say
3 with optional feature packages, but, yes, I believe
4 that what we're trying to say here is -- to be more
5 expansive we would have to look at the actual question
6 to understand the phrasing, but the question probably
7 said, are you going to introduce a new Centrex plus
8 product and we were trying to indicate that we have no
9 plans at this time to introduce a Centrex Plus like as
10 it relates to being central office-based.

11 Q. My final question is how long has U S WEST
12 known that it was selling Centrex Plus to resellers?

13 A. I think earlier the discussion centered
14 around Metronet 1985 so I would assume since 1985 in
15 the state of Washington.

16 MS. THOMAS: I have no further questions.
17 Thank you very much.

18 JUDGE WALLIS: Is there anything further on
19 cross?

20 MR. HARWOOD: I want to make sure I get my
21 mike configured.

22 JUDGE WALLIS: Mr. Harwood.

23

24

25

1 CROSS-EXAMINATION

2 BY MR. HARWOOD:

3 Q. I have a similar question. My name is Greg
4 Harwood and I represent AT&T. I would like you to
5 direct yourself to page 18 of your rebuttal testimony,
6 specifically lines 6 through 11. I would ask you this
7 basic question. How will a new small business
8 customer have more service options if one of the
9 services available to it today, Centrex Plus, is taken
10 away and no new service is introduced?

11 A. In the context of the question I think the
12 answer is that we gave them more options by
13 eliminating the termination liability charge, so if
14 they had had any concerns about selecting a new
15 carrier or a new service because they had obligations
16 to their existing Centrex service that we were going
17 to relieve their minds over that concern, so I think
18 you have to put it in context of the question and
19 answer.

20 Q. I think you misunderstood my question. I
21 asked you how will a new small business customer have
22 more services to it, not an existing U S WEST
23 customer.

24 A. If the U S WEST proposal to grandfather
25 Centrex was approved then a new business customer

1 would not be able to choose Centrex service. However,
2 the overwhelming amount of business customers have key
3 telephone service not Centrex Plus. We have a very
4 small actual number of customers who have chosen this
5 product in the past and I believe a very small number
6 would ever choose to select it in the future.

7 MR. HARWOOD: That's all I have.

8 MS. SIEGLER MILLER: Your Honor?

9 JUDGE WALLIS: Ms. Siegler Miller.

10 MS. SIEGLER MILLER: I have one area of
11 follow-up in response to an answer that Ms. Baird gave
12 during cross-examination by counsel for SCS. The
13 information on which I would base this follow-up is
14 contained in a data request and U S WEST response to
15 our data request that has not been identified or
16 marked as an exhibit yet, so I am wondering if I could
17 offer that now.

18 MS. ANDERL: I haven't seen it yet.

19 MS. SIEGLER MILLER: Be happy to allow
20 counsel to see it.

21 MS. ANDERL: I don't have any objection to
22 that, but if you're going to ask her questions about
23 it surely she should have a copy.

24 MS. SIEGLER MILLER: Your Honor, may I
25 approach the witness and show her the document?

1 JUDGE WALLIS: Yes.

2 CROSS-EXAMINATION

3 BY MS. SIEGLER MILLER:

4 Q. Ms. Baird, have you had an opportunity to
5 take a look at that document?

6 A. Yes, I have.

7 Q. In that document Frontier in its data
8 requests asked you the degree to which you had
9 reviewed the contracts that underlie the information
10 you provided about alternative service providers, and
11 we asked if you knew what locations or service areas
12 those contracts apply to?

13 A. Yes.

14 Q. And your response in that -- to that data
15 request was?

16 A. U S WEST did not review TCG's and ELI's
17 contracts to get this information, only the essential
18 terms and conditions section. The accounts themselves
19 were filed under WAC 480-09-015 submission of
20 confidential information.

21 Q. And on the next page I believe that there's
22 a continuation of your response?

23 A. Do you want the whole response?

24 Q. Let me ask you this question. Do you know
25 from the information that you reviewed in those

1 contracts what the service areas were by those service
2 providers?

3 A. Goes on to say, "U S WEST does not know the
4 geographical area of service in these contracts."

5 However, ELI and TCG are both authorized to provide
6 service throughout the state of Washington and in fact
7 I believe I was in error. I was going back to look at
8 the exhibit because I did flash after I said that
9 whether it had location or not and had my own
10 question.

11 MS. SIEGLER MILLER: Thank you very much.
12 That's all I had, Your Honor.

13 JUDGE WALLIS: Any further questions?
14 Let's take a recess at this point. Let's be off the
15 record, please.

16 (Recess.)

17

18 EXAMINATION

19 BY CHAIRMAN NELSON:

20 Q. I just have one, Ms. Baird. On page 14 of
21 your direct testimony starting at line 3 sentence
22 concludes that "U S WEST Centrex service is not
23 available in all exchanges," and my question is why
24 not?

25 A. While all of our central offices are

1 technically capable in Washington of providing Centrex
2 Plus, not in all central offices have we gotten a
3 request from a customer, and so therefore maybe not
4 all the additional software has yet been installed in
5 those offices. There haven't been customer requests I
6 think is generally the answer.

7 Q. So you deployed the software where there
8 was a demand?

9 A. Yes. There are cases where I am aware of
10 where sometimes you would put in a new central office
11 and maybe a deal has been made as far as doing a
12 package of services, so you may put a package that may
13 or may not have Centrex, but I think generally we try
14 to put in expensive feature packages like Centrex only
15 when we know there's a known market for that service.

16 Q. Could you just characterize what kind of
17 exchanges these would be where there wouldn't be
18 demand?

19 A. I believe in one of interrogatories that's
20 before us we have listed all of our central offices
21 and those which do and do not have customers in them.

22 Q. Oh.

23 CHAIRMAN NELSON: Is that in the record,
24 Your Honor?

25 MS. SIEGLER MILLER: Yes, it is.

1 MR. HARLOW: 19.

2 CHAIRMAN NELSON: Thanks.

3 JUDGE WALLIS: Commissioner Hemstad.

4

5 EXAMINATION

6 BY COMMISSIONER HEMSTAD:

7 Q. Well, I take it the product market in this
8 area would be comprised of Centrex services and PBX
9 services and business line services since they're
10 competing with one another. Is that a fair statement?

11 A. Yes.

12 Q. So if Centrex Plus is terminated, at least
13 for new customers, that leaves then the business line
14 option and the PBX option available for that new
15 customer?

16 A. Yes.

17 Q. Is it likely then if Centrex Plus is not
18 available but some portion of those new customers will
19 then elect to lease or purchase PBX equipment as
20 against using business lines?

21 A. Yes.

22 Q. And if that's the case, at least with
23 respect to those customers, wouldn't the company be
24 worse off than continuing to offer Centrex Plus?

25 A. There may definitely be scenarios where if

1 a customer brought simply PBX trunks and no other
2 service from U S WEST that there may be a revenue
3 reduction than if they had bought Centrex, yes.

4 Q. With regard to substitute 2C at this point,
5 I continue to try to understand its content. From the
6 questions on cross, apparently the -- do I understand
7 that the Centrex plus revenues reflect the
8 Commission's rate case order but that the basic
9 business average line revenues do not?

10 A. Actually, 2C does not reflect either
11 Centrex, the Commission orders in the Centrex portion
12 of the rate case or the business portion of the rate
13 case. This was done with our rates that predated the
14 rate case filing.

15 Q. The premise of the company's case is there
16 would be -- because of the revenue differential there
17 would be an arbitrage problem for the company, but
18 looking at it purely from a hypothetical perspective
19 or conceptual perspective, if the company's costs were
20 relatively lower for providing Centrex than for
21 providing business lines, wouldn't the arbitrage issue
22 be of less concern?

23 A. It might potentially be of less concern.
24 However, we've provided it and costed the Centrex
25 product around it being used by our large and medium

1 and business government customers. If the product was
2 to be extensively used by small business customers
3 then an updated cost study may show a different cost,
4 so it's not a given even that the existing amount of
5 revenue or contribution would exist in the future if
6 you change who and how the product is used
7 dramatically. May be more than you wanted in an
8 answer but it's not a question I can answer yes or no
9 to very easily.

10 Q. Have you read our rate case order?

11 A. I've read portions of it.

12 Q. I guess I will stop with that.

13 COMMISSIONER GILLIS: I have no questions.

14 JUDGE WALLIS: Ms. Anderl. Did you want to
15 take a break before doing your redirect or do you want
16 to do it now?

17 MS. ANDERL: Well, I thought if I had five
18 minutes I could maybe organize my questions but I can
19 go ahead. That's fine.

20 JUDGE WALLIS: I promised you a break so
21 you could prepare. You earlier indicated you might
22 have some documents and I am certainly willing to
23 offer that opportunity to you right now.

24 MS. ANDERL: I will take it.

25 JUDGE WALLIS: Let's take a 15-minute

1 break.

2 (Recess.)

3 JUDGE WALLIS: Let's be back on the record,
4 please, following our afternoon recess. U S WEST has
5 distributed two documents for consideration on
6 redirect. I'm marking as Exhibit 24C a multi-page
7 document which bears a designation Data Request No.
8 AT&T 01-0008 and that purports to consist of a
9 document of 18 pages. And I am marking as Exhibit 25C
10 for identification a three-page document the first
11 page of which is designated Data Request No. MFW
12 01-0002.

13 (Marked Exhibits 24C and 25C.)

14 JUDGE WALLIS: I do have just a couple of
15 questions for the witness.

16

17 EXAMINATION

18 BY JUDGE WALLIS:

19 Q. I'm wondering looking at your Exhibit No. 1
20 and your reference to economic arbitrage, what is the
21 difference between economic arbitrage and uneconomic
22 arbitrage or is there any?

23 A. Well, I am not an economist, so I don't
24 want to have the economists in the audience grating me
25 on this one, but in my experience what I would

1 consider uneconomic arbitrage where it's just pure and
2 simple, you bought out of a different tariff and you
3 got a different rate, you didn't bring additional
4 value or services. Economic arbitrage may be
5 considered the type -- or, excuse me -- economic may
6 be when there was additional value brought to the
7 table and additional items not just pure and simple
8 you brought out of a different tariff so you got to
9 get a different rate so that's how I think it's
10 uneconomic where it's purely a tariff shopping type of
11 an advantage.

12 Q. Do you believe that a reseller would be
13 able to do anything beyond replicating U S WEST's
14 services or is that inherent in your definition of
15 economic or uneconomic?

16 A. I believe that they can do additional
17 services. That's one of the reasons why they're able
18 to bypass our intraLATA toll. They're able to package
19 and put together intra- and interLATA toll in a
20 variety of ways in which we're not able to, and so
21 once again they're able to do some additional
22 uneconomic arbitrage opportunity, so their packaging
23 is more flexible than the packaging we've been
24 allowed.

25 Q. You have identified some line growth

1 restrictions in your proposal. What is the purpose
2 for limiting the growth in use and why would there be
3 a government exception to that limitation?

4 A. The purpose in limiting the growth is we
5 are trying to grandfather and eliminate the product,
6 and obviously our past history we've got the original
7 Centrex product grandfathered in 1981 still with
8 customers. Another example, Centriflex 3 we did have
9 a line limitation approved when that product was
10 grandfathered. A customer could only increase 100
11 percent their number of station lines at the time of
12 grandfathering. So it's not uncommon to have line
13 restrictions or growth restrictions on Centrex resale
14 -- excuse me -- Centrex grandfathering, and therefore
15 when we were doing the grandfathering we were trying
16 to figure out reasonable limitations and try and meet
17 the needs of all of our customers, and once again
18 that's what led to the bigger growth because if you
19 have five lines and you want to add three that's
20 percentage-wise a very large growth and then for
21 larger customers we used the 100 percent line growth
22 which we felt would meet the vast majority of the
23 needs of our retail customers.

24 Q. Have you identified how you believe Centrex
25 Plus is becoming obsolete?

1 A. I believe in my testimony -- I would have
2 to find it -- talked about some of the limitations.
3 Most of our customers have been concerned, especially
4 as it relates to adds, moves and changes, the
5 limitations with Centrex versus if they bought a new
6 sophisticated PBX they're able to do real time moves,
7 adds and changes. In addition, some of our customers
8 have expressed concerns for new features such as
9 Caller ID. They would like Caller ID to be integrated
10 into their Centrex like they can with other PBX or
11 business services.

12 In addition, many of our customers would
13 like to have extended data capability and many of the
14 new digital PBXs have very enhanced data carrying
15 capability, and we're looking at integrating the new
16 international standards for ISDN into our new product
17 so that we too can hopefully increase our data
18 capability.

19 JUDGE WALLIS: Are there any further
20 questions? It appears that there is not. Redirect,
21 Ms. Anderl.

22 MS. ANDERL: Thank you, Your Honor.

23

24

25

1 REDIRECT EXAMINATION

2 BY MS. ANDERL:

3 Q. Ms. Baird, let me first direct your
4 attention to what's been marked for identification as
5 Exhibit No. 24C which is the U S WEST response to AT&T
6 data request No. 8. Do you have that?

7 A. Yes.

8 Q. And can you identify that as a complete
9 copy of that data request and the response thereto?

10 A. Yes, it appears to be.

11 Q. Can you also identify whether or not other
12 documents which have been either admitted or offered
13 in this docket, specifically Exhibit 20C and Exhibit
14 No. 23, are pages from this complete response?

15 A. Yes, I believe they are.

16 MS. ANDERL: Your Honor, we would offer the
17 entire response as more appropriate than simply the
18 pages pulled out of it out of context. We believe
19 that it is a fair representation of a comparison that
20 U S WEST has presented of the features and functions
21 between Centrex and other business services, and we
22 would prefer that the Commission see that entire study
23 and report rather than the two selected pages offered
24 by the intervenors.

25 JUDGE WALLIS: Is there objection to 24C

1 for identification?

2 MR. POSNER: Do I take that to mean, Your
3 Honor, that an objection to Exhibit 23 -- there's no
4 further objection to Exhibit 23?

5 JUDGE WALLIS: If 24C is received then by
6 definition 23 would be received or the same
7 information would be received that's on 23.

8 MR. POSNER: Let me ask another way: Is
9 this in place of 20C and 23 or in addition to, Your
10 Honor?

11 JUDGE WALLIS: Ordinarily it's my
12 preference, I think, to have only one copy of a
13 document received in evidence in any particular
14 proceeding. There are very few exhibits, relatively
15 speaking, in this one. I do think it would be my
16 preference to have the overall document with the
17 notation that I believe is clear on the record that
18 the two exhibits in question are definitely a part of
19 this document.

20 MR. POSNER: I don't mean to belabor the
21 point, Your Honor, but Exhibit 23 is a page which is
22 not confidential, which is not the case with the
23 exhibit proffered by U S WEST.

24 JUDGE WALLIS: Very well. Ms. Anderl,
25 would you have any objection to having that a separate

1 exhibit on that basis?

2 MS. ANDERL: No, not at all.

3 JUDGE WALLIS: Very well.

4 MR. POSNER: Thank you, Your Honor.

5 JUDGE WALLIS: There being no objections to
6 Exhibit 24C, it is received and pursuant to our
7 discussion Exhibit 23 is also received.

8 MS. ANDERL: Thank you, Your Honor.

9 (Admitted Exhibits 23 and 24C.)

10 Q. Ms. Baird, let me then turn your attention
11 to Exhibit No. 18C. Do you have that document?

12 A. Yes, I do.

13 Q. I believe you were asked some questions by
14 Ms. Siegler Miller as to whether or not that document
15 reflected a certain percent increase in Centrex Plus
16 customers between the years 1993 to 1996; is that
17 correct?

18 A. Yes.

19 Q. And also with regard to the rate of growth
20 for Centrex Plus customers?

21 A. Yes.

22 Q. If the questions were rephrased and posed
23 to you as to whether or not you could tell from that
24 document if it shows growth in customers for Centrex
25 like services, what would your response be?

1 A. I wouldn't be able to tell the answer to
2 that from this document because this document does
3 include migration of customers from our previously
4 grandfathered Centrex products to Centrex Plus, so,
5 once again from this document we can't tell if the
6 total market for Centrex like services grew or not.

7 Q. And Ms. Baird, directing your attention to
8 what's been marked for identification as Exhibit No.
9 25C, which is U S WEST's response to an MFS data
10 request No. 2, do you recall that Ms. Smith from
11 Commission staff asked you some questions referring to
12 that data request?

13 A. Yes.

14 Q. Could you summarize briefly if you can what
15 that document shows in the response relative to the
16 AT&T response, the Exhibit 18C that we just discussed?

17 A. Yes. The 18C focused on one area, and I
18 believe we already discussed that some of these
19 include and do not include Centron stations. In the
20 document now that's been marked as 25C we now talk
21 about the total growth of station lines versus
22 customers versus common blocks for those customers
23 and, as I indicated, it didn't purport to tell you
24 whether the total market for Centrex like services was
25 growing or not because there is migration and in fact

1 that is identified as part of the footnote below the
2 charts, and I will read the second piece. "Most of
3 the increases for Centrex Plus for 1994 and 1995 are
4 attributable to customers converting from Centron to
5 Centrex Plus. Overall the Centrex product family has
6 declined."

7 Q. And Ms. Baird, that Exhibit 25C for
8 identification, can you identify that as a complete
9 and correct copy of U S WEST's response to MFS No. 2?

10 A. Yes, I believe it is.

11 MS. ANDERL: Your Honor, we would offer
12 that exhibit.

13 JUDGE WALLIS: Is there objection? Let the
14 record show that there is no response and 23C is
15 received. Exhibit me, 25C.

16 (Admitted Exhibit 25C.)

17 Q. Ms. Baird, in your testimony in response to
18 cross-examination questions you indicated that you
19 believed that PBX systems could be leased; is that
20 correct?

21 A. Yes.

22 Q. And under such a circumstance would a
23 customer in fact be required to invest a large amount
24 of capital upfront to lease a PBX as opposed to buying
25 one?

1 A. No. They would not have to put up a large
2 amount of upfront capital in a lease arrangement.

3 Q. You were asked a question by Commissioner
4 Hemstad as to what alternatives customers would have
5 if the Centrex product were discontinued and you
6 identified PBX and the business line. Was your answer
7 in that regard then limited to -- well, strike that.
8 Would a customer also have the option of choosing a
9 Centrex service from another facilities-based
10 provider?

11 A. Yes. A customer would have an option of
12 choosing Centrex Plus from another facilities-based
13 provider and then also to choose, of course, the 1FB
14 and PBX trunks from that provider also.

15 Q. Ms. Baird, you've been asked a number of
16 questions by counsel for intervenors concerning both
17 the arbitrage issue and U S WEST's readiness to offer
18 a replacement product to Centrex Plus in Washington.
19 Can you please summarize for us essentially why U S
20 WEST is withdrawing Centrex -- requesting to withdraw
21 Centrex Plus and not offer a replacement product at
22 this time?

23 A. Yes. Part of our concern specifically in
24 the state of Washington as it relates to Centrex like
25 products is that we have designed or are hoping to

1 design our new product as a bundled retail service to
2 meet the needs of our customers. With the orders in
3 Washington ordering us to go to an unbundled loop
4 versus feature -- and that's not a way in which the
5 product was really intended to be sold nor did we
6 design it to be unbundled in that manner -- has
7 resulted in that ALECs can purchase unbundled loops,
8 as I indicated in my testimony and we stated earlier,
9 for 59 percent of our locations from our central
10 offices between a price of \$4.65 and \$7.32 if they
11 choose contracted rates, which many other
12 telecommunications provider when reselling company
13 services do take the contracted rate option.

14 And U S WEST feels that they would just
15 purchase no other NAC. Why would you buy an \$11 NAC
16 or a LIS link NAC or any other NAC that may be a
17 result of arbitration or negotiations if you can
18 simply go in and buy the unbundled Centrex NAC for
19 those type of rates. And so with that unbundling
20 requirement combined with some potential concern or
21 confusion over the elimination of the per location
22 versus per system it just makes it very unlikely that
23 U S WEST can design and implement a Centrex product
24 that's not going to be of tremendous arbitrage concern
25 to the corporation with those type of requirements in

1 place, specifically in the state of Washington.

2 Q. And is this an arbitrage concern that
3 exists even prior to the adoption or effectiveness of
4 an unbundled loop rate?

5 A. Yes. Even today our private line NACs are
6 -- of course our private line NACs do also have a
7 decreased component, but in this example with the per
8 location versus -- the per system versus per location
9 would be unlikely that they would purchase any other
10 NAC other than the Centrex NAC and be able to get it
11 at these greatly discounted rates.

12 MS. ANDERL: Thank you, Your Honor. That's
13 all the redirect that I had.

14 JUDGE WALLIS: Are there any follow-up
15 questions?

16 MR. HARLOW: I have one, Your Honor,
17 related to the second to last question that was asked
18 about resale sellers being able to by an unbundled
19 Centrex Plus NAC.

20

21 CROSS-EXAMINATION

22 BY MR. HARLOW:

23 Q. Do you know how many if any such unbundled
24 Centrex Plus NACs have been sold by U S WEST since
25 that rate order became effective?

1 A. I am not aware of the number.

2 Q. Are you aware that there's been any?

3 A. I am not aware that there's been any. I
4 know that there has been some question and concerns as
5 far as the filing of the compliance tariffs and which
6 ones would be compliant and which would be stayed or
7 suspended, so I think there has been some confusion
8 over that issue at this time so I'm not sure that
9 we've received any orders as of yet.

10 JUDGE WALLIS: Further questions. Ms.
11 Baird, were you suggesting in any way in your last
12 response to Ms. Anderl that there should be a
13 restriction on resale of Centrex elements to the
14 provision of Centrex elements?

15 THE WITNESS: I don't want -- restrictions
16 on resale, I'm not sure if that's exactly what I am
17 proposing there. We, of course, would like to see
18 some restrictions as it relates to aggregation of toll
19 for unrelated end users as I discussed in my
20 testimony. However, what I was more referring to is
21 that U S WEST would prefer to offer Centrex Plus as a
22 finished retail product bundled for our customers, and
23 that if a provider has a need for any unbundled
24 elements they would go to the other tariffs which
25 contained the necessary unbundled elements as per the

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1 FCC orders and any orders that the Commission may
2 choose, and not to use our retail products to unbundle
3 parts at just simply a lower tariff rate.

4 JUDGE WALLIS: Any further questions of the
5 witness? It appears that there are not. Ms. Baird,
6 thank you very much for appearing. You're excused
7 from the stand. Let's be off the record.

8 (Recess.)

9 JUDGE WALLIS: Let's be back on the record,
10 please. At this time intervenor FTI is calling Dr.
11 Zepp to the stand.

12 Whereupon,

13 THOMAS ZEPP, PhD
14 having been first duly sworn, was called as a witness
15 herein and was examined and testified as follows:

16

17 DIRECT EXAMINATION

18 BY MS. SIEGLER MILLER:

19 Q. Afternoon, Dr. Zepp.

20 A. Afternoon.

21 Q. Would you please state your name and name
22 address for the record.

23 A. My name is Thomas M. Zepp. My address is
24 1500 Liberty Street Southeast in Salem, Oregon.

25 Q. Where are you employed?

1 A. I'm employed as an economist and
2 vice-president at Utility Resources, Inc., a
3 consulting firm.

4 Q. Are you the same Dr. Zepp that previously
5 filed direct testimony and exhibits A through G in
6 this case?

7 A. Yes.

8 Q. And was that prefiled direct testimony and
9 the attachments prepared under your supervision and
10 direction?

11 A. It was.

12 Q. Do you have any additions or corrections to
13 that testimony or the exhibits?

14 A. I have one correction. The correction is
15 with respect to pages 10 and 11. It's the same
16 correction. Right now on page 10, line 21, between
17 the word "Oregon" and the word "and" should be
18 inserted the state "Utah." And for the same reason on
19 page 11, line 19, the state Utah should be deleted.

20 Q. Thank you. But for those corrections
21 you've just made if the questions contained in that
22 testimony were asked of you today, would your answers
23 be the same?

24 A. Yes.

25 Q. Is your testimony and the exhibits true and

1 correct to the best of your knowledge?

2 A. It is.

3 MS. SIEGLER MILLER: Your Honor, I ask that
4 Dr. Zepp's prefiled direct testimony plus Exhibits A
5 through G be admitted to the record.

6 JUDGE WALLIS: Is there objection? Let the
7 record show that there is no objection and the
8 prefiled testimony and attachments A through G are
9 collectively received as Exhibit No. 26.

10 (Marked and Admitted Exhibit 26.)

11 MS. SIEGLER MILLER: Thank you, Your Honor.
12 Dr. Zepp is now available for cross-examination.

13 JUDGE WALLIS: Ms. Anderl.

14

15 CROSS-EXAMINATION

16 BY MS. ANDERL:

17 Q. Afternoon Dr. Zepp, I'm Ms. Anderl. I
18 represent U S WEST Communications.

19 A. Afternoon.

20 Q. Dr. Zepp, it's correct, is it not, that you
21 testified in the U S WEST rate case docket No. 950200?

22 A. Yes, it is.

23 Q. And on whose behalf did you testify?

24 A. On behalf of the Department of Information
25 Services and TRACER.

1 Q. Dr. Zepp, I want to ask you a few questions
2 about your testimony in that docket. Dr. Zepp, you
3 were asked to be in the rate case, and I would just
4 like to be certain that you continue to hold the same
5 opinion. Do you agree that Centrex is a service that
6 is competitive with switch-based private networks,
7 PBX-based private networks such as the Boeing
8 Company's or the DIS's?

9 A. I didn't understand what you meant by DIS,
10 but I agree if you get rid of Boeing and DIS I would
11 agree with what you had said earlier.

12 Q. That Centrex is a service that is
13 competitive with switch-based private networks,
14 PBX-based private networks?

15 A. Yes, I agree with that.

16 Q. And you were asked in the rate case and you
17 agreed, and I would like to know if you still agree
18 that in that case that U S WEST should be free to
19 raise or lower its prices for Centrex as it sees fit
20 limited only by the requirement that it not price
21 below cost. Do you agree -- and your response was,
22 and I will tell you, I'm not trying to trick you, you
23 stated, "I would agree that they should have downward
24 pricing flexibility, yes." Is that still your
25 testimony today?

1 A. Yes, that sounds consistent with what I
2 would have said.

3 Q. And you were further asked, 'Dr. Zepp, in
4 fact U S WEST is free to entirely withdraw from
5 offering that service, is it not?" And further asked,
6 "Wouldn't that be reasonable from your view as an
7 economist that any provider in a competitive market
8 that is providing a service in competition with other
9 services should be free to exit that market. That's
10 what competition is all about, isn't it?" And your
11 response was, "I guess I would have to agree, yes."
12 Is that still your testimony today?

13 A. That testimony should be taken in context.
14 If you carefully read the response, and that is it was
15 a general statement with respect to competition and it
16 wasn't with respect to the fact that U S WEST is the
17 only game in town that is providing those two
18 services, so certainly with respect to Centrex versus
19 PBX one would have to take into account that U S WEST
20 is providing both of them. If, on the other hand,
21 we're talking about a more generic situation where
22 we're talking about competition in general, which is
23 what I referred to there, then I would continue to
24 agree with that.

25 Q. Do you understand those questions were

1 asked to you in the rate case in the context
2 specifically of Centrex service?

3 A. I understand that, and I had the same line
4 of cross in Minnesota, and I want to make certain that
5 the record is as clear here as it was in Minnesota
6 when I respond to those questions, and the issue here
7 is that Centrex is clearly competitive with PBXs. I
8 have taken that position for a long time and that's
9 one of the reasons that I believe Centrex should be
10 priced and has been priced the way it has been.
11 Certainly is rational do that.

12 I would recommend to the Commission,
13 however, they take into account that if U S WEST is
14 the only one providing both of those services and you
15 remove one of them, you are basically taking away one
16 of the monopoly alternatives, if you will, to the
17 business customer or in the case of DIS to the state.

18 Q. Dr. Zepp, when you state that U S WEST is
19 providing both, do you mean, more precisely, that U S
20 WEST is providing PBX trunks?

21 A. Yes.

22 Q. And it is your understanding that in
23 Washington Centrex's features are cost priced as
24 competitive services?

25 A. Yes, they would be part of the service. We

1 do have a competitive element as part of the service,
2 yes.

3 Q. Do you have an understanding of what
4 findings or conclusions the Commission must make under
5 Washington law in order to determine that a service is
6 a competitive service, and rather than make the
7 question that general, let me ask you if it's your
8 understanding that in order to reach that conclusion
9 the Commission must determine that customers of those
10 services have reasonably available alternatives?

11 A. I would assume that would be the case, yes.

12 Q. And what would you describe to be the
13 reasonably available alternatives to Centrex Plus?

14 A. Features?

15 Q. Yes.

16 A. Well, the features that would be available
17 would be like on my key system. I may have a key
18 system that can provide a service that's -- or a
19 feature, if you will, that's similar to what the
20 central office can provide. However, on my own phone,
21 whether I have that phone hooked up to a PBX system or
22 to a Centrex system I'm still ultimately a captive of
23 U S WEST, so that portion of the service of course is
24 not competitive.

25 Q. Have you heard the testimony in this docket

1 that at least one other alternative local exchange
2 company is offering a Centrex service in the state of
3 Washington although perhaps it's not necessarily been
4 defined as throughout the state, that is, TCG?

5 A. It was my understanding from the testimony
6 that Ms. Baird gave today that she didn't know where
7 TCG was providing service and to what extent it's
8 being provided. I would imagine it's being provided
9 in certain locations but I do not know how many
10 locations. It may only be Seattle and may be only one
11 office in Seattle, I don't know how widespread that
12 offering is.

13 Q. Have you reviewed Ms. Baird's testimony?

14 A. I did at one time, yes.

15 Q. Did you review the exhibit which was the
16 TCG brochure advertising its Centrex service?

17 A. I don't recall reviewing that.

18 Q. If a new entrant such as TCG had a switch
19 in an office in Seattle, what's your understanding of
20 the geographic scope of the territory that they might
21 be able to serve from that switch?

22 A. Probably as far as their fiber goes. They
23 may be able to arrange with somebody else to go
24 further than their own fiber.

25 Q. Dr. Zepp, does Frontier send, as a Centrex

1 reseller, send its intraLATA toll to U S WEST?

2 A. I don't know.

3 Q. You're here providing testimony on behalf
4 of Frontier, are you not?

5 A. I am.

6 Q. Are you their only witness?

7 A. I am.

8 Q. Do you know how Frontier carries its
9 interLATA interexchange traffic to the interexchange
10 carrier? In other words, the question I'm asking is,
11 does that service provide originating access to U S
12 WEST?

13 A. I would anticipate that what Frontier would
14 be doing would be aggregating the traffic and sending
15 that traffic on a T1 which would probably be a U S
16 WEST T1, I would imagine, or has a special access over
17 to whoever its carrier is.

18 Q. And then U S WEST would receive from
19 Frontier the tariff rate for the T1; is that right?

20 A. Yes. It would receive special access
21 revenues.

22 Q. Dr. Zepp, at page 4 of your testimony, you
23 talk about customers making substantial capital
24 expenditures. That's at line 17.

25 A. Yes.

1 Q. Have you done any analysis as to what a
2 capital expenditure, if any, would be required if a
3 customer chooses to lease a PBX system, initial
4 capital expenditure?

5 A. Yes, I've looked at that in the past.
6 Obviously if one chooses to lease, one would possibly
7 incur a greater overall financial commitment than if
8 you were to pay upfront, but they would, of course,
9 spread that commitment out over a period of time, and
10 those numbers are relatively large. I haven't looked
11 at those recently but they're not small numbers.

12 Q. On page 5 of your testimony, you contend
13 that the permission to grandfather Centrex Plus should
14 be conditioned upon the introduction of an adequate
15 replacement product. Do you see that reference at
16 page 4, I guess it's line 5?

17 A. Yes.

18 Q. And who is to make that determination as to
19 whether the replacement product if any that is offered
20 is adequate? Is that the reseller who might want to
21 purchase it, a new customer who might be interested in
22 such a product or the Washington Commission?

23 A. I would imagine ultimately it would be the
24 Washington Commission that would have to make that
25 determination because obviously you're going to have

1 interested parties such as FTI, or FT in Washington,
2 that may not think it's an adequate product.
3 Ultimately presentations of some type would have to be
4 made to the Commission, the Commission would have to
5 determine if it was an adequate replacement product.

6 Q. Do you think that Frontier's determination
7 as to whether or not the product was adequate should
8 be controlling?

9 A. I think it certainly should be a primary
10 output since Frontier is a customer of the service, as
11 there are other customers here that either are or
12 would like to be customers of the service and
13 therefore their input would certainly be important to
14 this Commission in determining whether the product is
15 adequate or not.

16 Q. Should it be controlling?

17 A. No. I think the Commission's determination
18 should be controlling.

19 Q. Is it your contention that generally a
20 product should not be withdrawn by a local exchange
21 company if that product is resold unless there's a
22 replacement product offered?

23 A. In general I would imagine a firm like U S
24 WEST would not want to eliminate a product that's had
25 substantial growth, that documents provided here today

1 have shown there's been substantial growth in the
2 number of resold lines. They would not want to
3 eliminate such a product unless they had a replacement
4 product that would be desired by their customers. I
5 mean, what we're talking about here is a business
6 that's trying to keep its customers happy. In that
7 situation in general I would not expect this would
8 ever arise.

9 Q. Well, to the extent that it ever has or it
10 does, what's your position?

11 A. Well, this specific instance it seems to
12 me, and in particular what we see with the FCC is the
13 FCC has noted that there is a distinct problem here
14 and it has decided not to try to overwhelm or
15 override, if you will, state jurisdiction and has
16 basically turned this issue back to the states to let
17 the states make a determination that they believe is
18 appropriate with respect to the product in each and
19 every state where U S WEST has been offering it. So I
20 would think, again, if we look at the FCC, again it's
21 been turned back to the states to make this
22 determination as to whether this is a regional product
23 or not or reasonable thing to do, excuse me.

24 Q. Has Frontier requested negotiations with
25 U S WEST under the Telecommunications Act?

1 A. Not to my knowledge.

2 Q. Is Centrex resale the only economically
3 viable way that Frontier has to compete in provision
4 of local exchange service in the state of Washington?

5 A. I don't know that. I am certain Frontier
6 has technical capabilities. They would evaluate
7 alternatives. I do not know if they're considering
8 anything other than resold Centrex like products.

9 Q. On page 7 of your testimony you discuss the
10 role of resellers and discuss how resellers can force
11 the incumbent to lower operating expenses and overhead
12 costs?

13 A. Yes.

14 Q. Doesn't that also occur with facility-based
15 competition?

16 A. Well, facilities-based competition we
17 should expect, as I've indicated in my schematic, that
18 there would be yet another dimension to put pressure
19 on the incumbent LEC's costs. There would also be
20 pressure to improve products and facilities, if you
21 will, as well, but certainly the resellers provide
22 what I've indicated to you as these pressures even
23 without having the alternative facilities in place.

24 Q. Do you know whether Frontier resells
25 Centrex service at a rate different from that which is

1 charged by U S WEST?

2 MS. SIEGLER MILLER: Objection.

3 A. I don't know. How is that relevant to
4 withdrawal of Centrex?

5 JUDGE WALLIS: The witness has responded he
6 doesn't know. Let's consider it moot.

7 Q. Hypothetically, if Frontier did not charge
8 a different rate -- do you have that hypothetical in
9 mind -- how then would that force an incumbent LEC to
10 lower or reduce its costs or expenses?

11 A. Under your hypothetical we have similar
12 retail products or -- I don't know exactly how to
13 respond. I would imagine that when we have a company
14 like FTI, and what we're going to see also in the
15 future, we're going to see possibly provisions of
16 multiple service. It may well be that the prices
17 don't exactly align. I don't know. Are you saying
18 that the prices actually line up and sold as priced
19 separately?

20 Q. Is that what you want me to assume?

21 A. Well, to the extent that they're similar
22 prices and we have one stop shopping with a reseller,
23 that in and of itself is going to put pressure on U S
24 WEST to try and do a good job, because generally
25 speaking I would anticipate customers prefer one stop

1 shopping, at least a large number of them will.

2 Q. If they're local and they're inter- and
3 intraLATA toll, is that what they're saying?

4 A. And voice mail and all the products that
5 you can envision. I know there are some resellers in
6 other states also providing Internet services as part
7 of a package of services and there are lots of
8 different kinds of things that can be provided by
9 resellers, not just local service. It's now becoming
10 increasingly a package of services that we're going to
11 see in the future.

12 Q. On page 8 of your testimony, starting at
13 line 10 you discuss the role of competition in the
14 interexchange or long distance markets. Do you see
15 that reference?

16 A. Yes.

17 Q. Have you analyzed long distance rates
18 within the past year and compared them to, say, what
19 they were two or five or seven years ago?

20 A. I don't know exactly what you mean by
21 analysis. I can tell you I certainly am aware that
22 recently AT&T in the face of severe competition has
23 dropped its retail prices to 15 cents a minute, and
24 we've seen major drops in the stocks of an awful lot
25 of telecommunications companies as the shake-out is

1 starting to appear that competition is putting
2 downward pressure on prices. That's certainly been a
3 recent development. I don't know in terms of a longer
4 term study what you have in mind.

5 Q. Can you state whether specifically for
6 small customers or individual residential users long
7 distance prices or rates have gone down?

8 A. I know mine have. I haven't done too much
9 more study than that.

10 Q. Dr. Zepp, you spent some time discussing
11 what other states have done or at least one other
12 state that I am thinking of, Minnesota, but you do
13 then starting at page 10 discuss rulings on U S WEST's
14 filings. Can tell me whether or not any of those
15 other states have unbundled the Centrex loop from the
16 service and order that it be sold separately?

17 A. I don't know.

18 Q. On that same page, under the heading more
19 innovative products, do you see that?

20 A. I do.

21 Q. You state that some firms may offer
22 packages of services not offered by the incumbent
23 LECs. Were you talking about the bundled one stop
24 shopping there?

25 A. That's primarily what I had in mind, yes.

1 Q. Are you aware that the incumbent LEC could
2 offer that bundled one stop shopping in any
3 jurisdiction?

4 A. I don't know legally what U S WEST is able
5 to offer at this point. I know U S WEST certainly has
6 limitations as far as the long distance market is
7 concerned.

8 Q. Other than a package of services including
9 inter- and intraLATA toll along with the local
10 exchange service and voice mail, can you give me an
11 example of a package of services offered by Frontier
12 that is not offered by an incumbent LEC?

13 A. I apologize. I am not that familiar with
14 Frontier's offerings. I did give you an example a
15 moment ago that I know McCloud, for example, is
16 offering a package that includes Internet services. I
17 would imagine that Frontier and other resellers can
18 move in that direction and offer an ever increasing
19 variety of products that would, of course, be
20 conveniently available then to consumers.

21 Q. On page 13 at the top of the page you
22 discuss the stimulation studies.

23 A. I have it.

24 Q. Have you done any analysis in Washington to
25 compare the studies that you've offered from Minnesota

1 with the stimulation number used by Ms. Baird in her
2 testimony?

3 A. As part of the docket 235 in Minnesota,
4 that's been referred to, one of the stimulation
5 studies that I examined originally was for the state
6 of Washington and the stimulation, of course, was
7 substantially higher than the numbers that U S WEST
8 subsequently chose to include in attachment E.
9 Attachment E is a document that U S WEST filed in the
10 state of Iowa which they released into the public
11 records some studies that previously had been
12 considered proprietary. There were other stimulation
13 studies that were done and that were discussed at that
14 time in the state of Minnesota and one of them was a
15 study in the state of Washington that showed
16 substantially higher stimulation than this. So that
17 was one thing.

18 Also, in terms of stimulation studies, when
19 looking at a PBX type offering as an alternative to
20 resold Centron or resold Centrex product when asked to
21 take into account the fact that you're going to be
22 replacing a trunk with a certain number of Centrex
23 lines, so when you're looking at a stimulation study
24 and you're considering a PBX type service the
25 stimulation study is really more like a five to one

1 relationship where in fact you're going to resell
2 instead of one PBX trunk, which may be slightly higher
3 priced, you're going to be selling five or six or
4 maybe three, depending upon the application of Centrex
5 lines. So that would be again a stimulation study
6 that would of course apply for the state of Washington
7 and as well as in Minnesota and other states.

8 Q. And you're referencing a specific study
9 there?

10 A. Well, we could -- all you have to do is
11 take Ms. Baird's testimony from this morning and
12 that's a study in and of itself.

13 Q. My question was are you referencing a
14 specific written study?

15 A. One doesn't need a written study. All one
16 needs to know is, as Ms. Baird stated this morning,
17 that you're going to have three and a half lines of
18 replacing one trunk. That's a stimulation of three
19 and a half to one. That's a pretty substantial
20 stimulation and it's certainly a lot higher than 1.2
21 that Ms. Baird reports in her exhibit.

22 Q. Do you recall that Ms. Baird's testimony
23 was that it would depend on the specific customer end
24 application?

25 A. Yes. That's what she said, and the

1 smallest number she said was three and a half to one.

2 She also said it could be ten to one.

3 Q. Thank you, Dr. Zepp. I believe Ms. Baird's
4 testimony went further than that. However, I am not
5 going to argue with the witness. I think the record
6 will speak for itself.

7 Dr. Zepp, on page 6 of your testimony, you
8 quote extensively from a Minnesota order. Do you see
9 those reference?

10 A. I do.

11 Q. I would like to hand you a copy of that
12 order if you could identify it and just ask you to
13 read into the record the three sentences that I have
14 marked on page 11.

15 MS. ANDERL: If we may, Your Honor, I will
16 just show this to Ms. Siegler Miller.

17 JUDGE WALLIS: Yes.

18 Q. Dr. Zepp, as you can see there on page 11
19 I've marked two passages, I think a total of three
20 sentences. Would you read those sentences into the
21 record, please.

22 A. I would assume my counselor could introduce
23 this whole document if possible. I've seen these
24 sentences before. They need to be read in context.
25 If you just take the one sentence you will tend to get

1 a misinterpretation of what the gist of the
2 Commission's determination was, but I will be glad to
3 read these into the record for you.

4 Q. Thank you.

5 A. "On the other hand the Commission does not
6 agree with ETI that its resale of Centron has had no
7 detrimental effect upon U S WEST. It is clear that
8 resale of Centron results in less net contribution
9 than U S WEST would experience in the absence of
10 Centron resale."

11 Q. And the next passage?

12 A. There's a skipping of a substantial amount
13 of text and then the next sentence is, "By so doing
14 Centron resale would not simply eliminate ratepayer
15 sharing under the incentive plan but place significant
16 upper pressure on rates."

17 Q. Thank you, Dr. Zepp.

18 MS. ANDERL: Your Honor, that is all the
19 cross that I have for Dr. Zepp. However, I would tend
20 to agree with him that perhaps the passages from this
21 order are best read in context. We would be happy to
22 offer it as an exhibit or ask the Commission to take
23 judicial notice of it and provide copies.

24 JUDGE WALLIS: Parties have comments?

25 MS. SIEGLER MILLER: Your Honor, I would

1 definitely approve of it being admitted in its
2 entirety.

3 JUDGE WALLIS: Very well. Let's mark a
4 late-filed Exhibit No. 27.

5 (Marked Exhibit 27.)

6 JUDGE WALLIS: Could counsel give us a bit
7 better identification on that, please.

8 MS. ANDERL: You bet. It's an order before
9 the Minnesota Public Utility Commission issued January
10 19, 1993 docket No. P-999/CI-90-235.

11 JUDGE WALLIS: Thank you. Is there an
12 objection to receiving that document? Let the record
13 show that there's no objection and it is received as a
14 late-filed exhibit.

15 (Admitted Exhibit 27.)

16 MS. ANDERL: That does conclude my cross.

17 JUDGE WALLIS: Very well. Commission
18 staff.

19 MS. SMITH: No questions.

20 JUDGE WALLIS: Are there any questions from
21 other intervenors? Redirect.

22 MS. SIEGLER MILLER: Just one question,
23 Your Honor.

24

25

1 REDIRECT EXAMINATION

2 BY MS. SIEGLER MILLER:

3 Q. Dr. Zepp, would you accept subject to check
4 that the brochure to which Ms. Anderl referred that
5 has to do with TCG services is silent as to where the
6 location and service area of that product is available
7 in Washington?

8 A. Yes, I will accept that subject to check.

9 MS. SIEGLER MILLER: Thanks. That's all I
10 have.

11 JUDGE WALLIS: Anything further of the
12 witness? Let the record show that there is no
13 response. Dr. Zepp, you're excused from the stand.
14 Thank you for coming today. Let's be off the record
15 while the next witness steps forward.

16 (Recess.)

17 JUDGE WALLIS: Let's be back on the record,
18 please. During our brief recess Dr. Zepp has stepped
19 down from the stand and Mr. Rains has stepped up.
20 Whereupon,

21 JEFF RAINS,
22 having been first duly sworn, was called as a witness
23 herein and was examined and testified as follows:

24 JUDGE WALLIS: Ms. Kaye.

25

1 DIRECT EXAMINATION

2 BY MS. KAYE:

3 Q. Mr. Rains, can you state your name and
4 business address for the record, please.

5 A. My name is Jeff Rains. I'm with Shared
6 Communications at 1095 25th Street, Salem, Oregon.

7 Q. And Mr. Rains, you filed direct testimony
8 in this matter; is that correct?

9 A. That's correct.

10 MS. KAYE: Your Honor, I'm not sure whether
11 this testimony has been assigned a number yet.

12 JUDGE WALLIS: It has not. Let us identify
13 the prefiled testimony of Mr. Rains as Exhibit 28 for
14 identification.

15 (Marked Exhibit 28.)

16 Q. Your testimony included two exhibits,
17 Exhibit A and Exhibit B; is that correct?

18 A. Yes, that's correct.

19 Q. And those are included in Exhibit 28?

20 JUDGE WALLIS: Yes.

21 Q. Do you have any changes to make to your
22 testimony?

23 A. No, I do not.

24 Q. And did you prepare or direct the
25 preparation of the document that's been identified as

1 Exhibit 28?

2 A. Yes, I did.

3 Q. And if I were to ask you today the same
4 questions that are contained in that testimony, would
5 your answers be the same?

6 A. Yes, they would.

7 Q. In that case the witness is now available
8 for --

9 MS. KAYE: I'm going to move the admission
10 of Exhibit 28.

11 JUDGE WALLIS: Is there any objection?

12 MS. ANDERL: No.

13 JUDGE WALLIS: Let the record show that
14 there is no objection and Exhibit 28, which consists
15 of a prefiled testimony of Mr. Rains including Exhibit
16 A and Exhibit B, is received in evidence.

17 (Admitted Exhibit 28.)

18 MS. KAYE: The witness is now available for
19 cross-examination.

20

21 CROSS-EXAMINATION

22 BY MS. ANDERL:

23 Q. Good afternoon, Mr. Rains. I'm Lisa
24 Anderl. I represent U S WEST Communications.

25 A. Good afternoon.

1 Q. Can you describe for me your experience in
2 the telecommunications industry?

3 A. My experience in telecom is limited to my
4 service at Shared Communications. I started with the
5 company in 1989, essentially in sales, and have
6 migrated through the ranks with Shared Communications
7 from sales to currently my position as president of
8 the company.

9 Q. Are you familiar, Mr. Rains, with the
10 Telecommunications Act of 1996?

11 A. Somewhat.

12 Q. Are you familiar with the concept of
13 unbundling?

14 A. Yes.

15 Q. And the concept of network elements?

16 A. Yes.

17 Q. Is it Shared Communications' position in
18 this docket that a local exchange company should never
19 be allowed to withdraw a resold service unless it
20 offers a replacement product?

21 A. Could you restate the question for me,
22 please.

23 Q. Yes. Is it Shared Communications' position
24 that an incumbent LEC should never be allowed to
25 withdraw a resold service unless it offers a

1 replacement product?

2 A. I think never is a little bit too
3 harsh, if you will. I think there's opportunities to
4 grandfather products where customers have
5 opportunities, and I would follow up by saying that as
6 the incumbent LEC in a lot of other areas there are no
7 other opportunities nor will there be in the near
8 term.

9 Q. Describe for me a situation in which you
10 feel it would be appropriate to grandfather a product
11 without offering a replacement.

12 A. I couldn't come up with one off the top of
13 my head, I am afraid.

14 Q. So under some circumstances an incumbent
15 LEC would be allowed to withdraw a product or service
16 without offering a replacement but you can't think of
17 a situation in which that would be appropriate?

18 A. I think if customers could be provided a
19 level of service that would not harm them, I believe
20 that's acceptable. I find that there's a number of
21 circumstances that surround this particular issue that
22 lend themselves or become harmful to customers. If
23 you look at the geographic diversity in this
24 particular case we have opportunities in some areas
25 for customers, in other areas I don't believe

1 opportunity will exist.

2 Q. What do you mean by opportunity?

3 A. To avoid the harmful effects of
4 grandfathering a product.

5 Q. Does Shared Communications Services in the
6 provision of its resold Centrex bypass U S WEST for
7 routing interLATA toll?

8 MS. KAYE: Objection, that is a compound
9 question.

10 Q. IntraLATA toll, do you route intraLATA toll
11 to U S WEST?

12 A. We route intraLATA toll at or from the
13 customer premise either through the use of 10 triple X
14 dialing we route intraLATA toll through Shared
15 Communications or through the use of dialers or
16 through the use of customer premise equipment, speed
17 dial as an example.

18 Q. Do you route it to U S WEST?

19 A. We do not, no.

20 Q. So you bypass?

21 A. Customers have that opportunity to do that
22 themselves. We don't do the routing. If your
23 reference is to an ARS application at the common block
24 level, we do not do that.

25 JUDGE WALLIS: I wonder if the witness

1 might explain that acronym.

2 THE WITNESS: Automatic route selection.

3 Q. And when one of your customers of resold
4 Centrex makes an interLATA call, how is that
5 provisioned?

6 A. Normally it's provisioned through the
7 normal pick process, preferred interstate carrier
8 process. They dial the number, it goes through Shared
9 Communications.

10 Q. And how does it get to the interexchange
11 carrier?

12 A. It gets to us via dedicated facilities from
13 U S WEST's central office as they do with most
14 carriers.

15 Q. So it's your understanding that U S WEST
16 would not receive originating switched access revenues
17 for that call?

18 A. It is my understanding that they could
19 receive those, yes. It is also my understanding that
20 customers have that choice today. We do not hold our
21 Centrex customers captive to Shared Communications
22 long distance service. We have a number of customers
23 subscribe to U S WEST intraLATA service. We have a
24 number of customers that may subscribe to AT&T as
25 their interLATA interstate/international carrier.

1 Q. Do you provide your customers any incentive
2 to not use U S WEST for their intraLATA toll, any
3 financial incentives?

4 A. Could you restate the question?

5 Q. Do you offer your customers, your end user
6 customers, any financial incentives to use an
7 intraLATA toll carrier other than U S WEST?

8 A. In the form of lower rates, yes, that
9 opportunity exists for our customers.

10 Q. Mr. Rains, do you know what a PBX is?

11 A. I'm somewhat familiar with customer premise
12 equipment, yes.

13 Q. So you also know what a key system is?

14 A. Yes.

15 Q. Are you aware that those systems can be
16 either purchased or leased?

17 A. Yes.

18 Q. Your Exhibits A and B, did you do any
19 analysis of what it might cost each of those customers
20 if they were to provision their telecommunications
21 needs through a key system or a PBX?

22 A. No.

23 Q. Mr. Rains, could you define price squeeze
24 for me?

25 A. In reference to?

1 Q. Your testimony on page 7 at line 4.

2 A. I believe this is a two-part answer, if you
3 will. There's a price squeeze, in my opinion, for
4 smaller resellers like ourselves --

5 Q. Mr. Rains, could you please answer my
6 question which was please define price squeeze.

7 MS. KAYE: I believe that the witness has
8 offered to do that and that the witness should be
9 allowed to testify in response and give a complete
10 answer.

11 JUDGE WALLIS: Why don't we ask the witness
12 to start off by responding directly to the question
13 and then if he wants to explain his answer he may.
14 The question, I believe, Mr. Rains, is to explain the
15 term -- define the term as you've used it.

16 A. In a sense we've got an opportunity here
17 for maybe the description of arbitrage. I'm not sure
18 if that's where we're headed with this. Price squeeze
19 to me means that it's a vehicle by which you eliminate
20 somebody from the marketplace.

21 Q. So if someone were to offer a superior
22 product at a lower cost to the consumer and would
23 thereby eliminate or attempt to eliminate its
24 competitors, would that be a price squeeze?

25 MS. KAYE: I believe the witness has

1 already given his description of what a price squeeze
2 is.

3 JUDGE WALLIS: Yes, but I believe that this
4 is a different question and I will allow the witness
5 to respond?

6 A. Could you repeat the question for me,
7 please.

8 Q. To the extent that someone were to offer a
9 product at either a higher level of service and/or a
10 lower price and thereby eliminate or attempt to
11 eliminate its competitors, would that be a price
12 squeeze?

13 A. Price squeeze to me is essentially a price
14 issue. Quality may or may not have any bearing on the
15 conversation if you're looking for a definition of
16 price squeeze. Assuming we're talking about parity in
17 the marketplace we have two comparable products out
18 there, price squeeze is an economic issue. Quality I
19 don't believe has a bearing here.

20 Q. And if two firms compete and one offers a
21 lower price for a comparable service, is that a price
22 squeeze?

23 A. I would say yes, that's true. I would also
24 say that our particular service is differentiated in
25 what we provide as opposed to what U S WEST provides.

1 The conversation seems to be going around price only.
2 It's an issue of service as well.

3 Q. Well, when I tried to ask you about service
4 before you just told me all you wanted to talk about
5 was price so I tried to limit my question to price.

6 MS. KAYE: Objection, argumentative and
7 badgering the witness.

8 MS. ANDERL: I am simply trying to hone in
9 on what the witness wants -- the way the witness is
10 answering he has told me on the one hand that my
11 question was too broad and that on the other hand it
12 was too narrow so I was simply trying to seek some
13 clarification.

14 JUDGE WALLIS: I'm going to suggest that
15 the witness just focus on the question and responding
16 to the question and let counsel criticize the
17 question, and I think that might reduce the temptation
18 to talk about the quality of questions and get
19 personal things out of the discussion, so I'm going to
20 ask Mr. Rains if you would just really carefully
21 listen to the question and respond the best you can to
22 that question.

23 THE WITNESS: Yes, Your Honor.

24 Q. Mr. Rains, if Shared Communications
25 Services were to seek to provide a Centrex or Centrex

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1 type service by purchasing from U S WEST and reselling
2 unbundled elements rather than a finished service --

3 Do you have that scenario in mind?

4 A. Today we do not.

5 Q. I said if, if SCS were to do that.

6 A. Yes.

7 Q. I just wanted to make sure you were with
8 me.

9 -- what unbundled elements would you need
10 to purchase from U S WEST?

11 A. Because we don't have all of the
12 interconnection piece parts available to us and the
13 pricing that's associated with it I can't answer that
14 question. Basically because there are some elements
15 that we may want to buy from U S WEST and other
16 elements that we may want to provide in our own
17 switching platform. It's an economic issue if we can
18 buy it from U S WEST for less money than buying a
19 switch that provides that functionality.

20 Q. Does SCS have a switch?

21 A. We have a toll switch today. We do not
22 have a dial tone switch.

23 Q. Could that toll switch be upgraded to
24 provide dial tone?

25 A. Yes.

1 Q. And have you done any analysis in terms of
2 what network elements you would need either self-
3 provisioned or purchased from U S WEST in order to
4 provide a Centrex equipment service?

5 A. We have -- I am not an expert in that area.
6 We have engineers that come down to do the piece parts
7 that we would be required to have. Once again, I
8 would restate that what we would buy from U S WEST or
9 what we provide ourselves is an economic issue.

10 Q. Did you understand my question was not
11 seeking to determine what you were planning on buying
12 from U S WEST?

13 A. Yes, I did, and I believe I answered your
14 question by telling you I'm not an expert in that area
15 as far as the piece parts or how many elements make up
16 the total line.

17 Q. Has Shared Communications Services
18 requested negotiations with U S WEST for
19 interconnection under the Telecommunications Act of
20 1996?

21 A. Yes, we have.

22 Q. Can you tell me what the date of that
23 request was?

24 A. I cannot. I could say it's within the last
25 60 days certainly.

1 Q. That the request was made?

2 A. Yes. We met directly with U S WEST.

3 Q. So you're not yet at a point where you
4 would be able to request an arbitration. Is that your
5 understanding?

6 A. That's correct.

7 Q. Have you filed with or provided to U S WEST
8 the terms and conditions of interconnection that you
9 seek?

10 A. We have put together what we have in the
11 way of a business plan at this point. One of their
12 requests to us was for some projections for market
13 area, some projections on line growth and things like
14 that. Some of those questions that they have, quite
15 frankly, are difficult to answer unless you know the
16 piece parts and the cost of those piece parts. For a
17 company the size of Shared Communications we can't
18 blanket the market area. We have to pick and choose,
19 so some of that can be a challenge.

20 Q. Have you provided to U S WEST a list of
21 unbundled network elements that you would request?

22 MS. KAYE: Objection to the extent that
23 this goes into the particulars of a settlement
24 negotiation. I believe those negotiations are
25 privileged and confidential.

1 MS. ANDERL: I don't intend to tread on
2 that ground at all. I am simply seeking to explore
3 the unbundled elements versus resale issue. If he can
4 say either yes or no I probably won't ask him what
5 those were.

6 JUDGE WALLIS: Does the witness know?

7 A. Specific elements, no, but I think I may
8 want to answer your question. I think where you're
9 headed with this --

10 JUDGE WALLIS: Excuse me, Mr. Rains. I'm
11 just going to ask you to respond to the question that
12 was asked and maybe counsel can restate that question.

13 THE WITNESS: That would be fine. Thank
14 you, Your Honor.

15 Q. The question was simply have you requested
16 a list of unbundled elements to be made available?

17 A. Yes.

18 Q. Mr. Rains, is it your position that the
19 resale of Centrex services is the only economically
20 viable way for Shared Communications Services to
21 provide local exchange service in Washington?

22 A. Economically viable is again a difficult
23 question to answer. Until we have all of the pricing
24 elements available to us, we can't really put together
25 the equation that says, yes, it's economically viable.

1 There are a number of those economic questions yet to
2 be answered. Once the negotiations are finalized I
3 believe we then will have the opportunity to come up
4 with that answer.

5 Q. You are certainly considering other
6 alternatives, are you not?

7 A. We always consider other alternatives, yes.

8 Q. Mr. Rains, where is your toll switch
9 located?

10 A. Portland, Oregon.

11 Q. And all of the services that you provide to
12 customers in Washington state, is that provided from
13 that switch?

14 A. No.

15 Q. You have another switch in Washington?

16 A. No. We provide other services. In
17 addition to toll service we provide cellular as an
18 example that has nothing to do with our switch in
19 Portland.

20 Q. I'm sorry if I wasn't clear. Any switching
21 services that you provide to your customers in
22 Washington are provided out of that switch in Oregon;
23 is that right?

24 A. As far as switching services, yes, that's
25 correct.

1 Q. Do you know what you would need to do to
2 that switch in order to be able to provide local dial
3 tone out of that?

4 A. In general terms, yes.

5 Q. What is that?

6 A. In our particular case it's a Northern
7 Telecom piece of equipment. It would require
8 somewhere in the two to \$4 million kind of price range
9 to upgrade it to what's referred to as a DMS 500.
10 Essentially it's a toll switch and a dial tone switch.
11 In addition we have -- where you want to cover
12 specific market areas you must also buy either an
13 access node or remote switching center at additional
14 cost as well as the fiber to connect all of this
15 network together.

16 Q. Do you contend that the withdrawal of
17 Centrex Plus as proposed by U S WEST in this docket
18 will lead to higher prices for that Centrex Plus
19 service?

20 MS. KAYE: Objection. Calls for
21 speculation of the witness.

22 MS. ANDERL: I don't think it does. I'm
23 asking if that's his position and I don't see what
24 it's asking him to speculate on. I'm asking him if
25 that's his position.

1 JUDGE WALLIS: The witness may respond.

2 A. I think without knowing what kind of
3 contribution there is in the product and also knowing
4 what kind of market share we have in the product, I
5 don't speculate that there is going to be a
6 substantial change in the Centrex pricing. U S WEST
7 would be one to better answer that question than I.

8 Q. Do you contend that the tariff filing at
9 issue in this proceeding increases any rate?

10 A. No.

11 MS. ANDERL: I don't have any other cross.

12 JUDGE WALLIS: Very well. Are there other
13 questions on cross-examination? Commission staff?

14 MS. SMITH: Not from staff.

15 JUDGE WALLIS: Other intervenors?
16 Redirect?

17 MS. KAYE: Brief redirect.

18

19 REDIRECT EXAMINATION

20 BY MS. KAYE:

21 Q. Jeff, I will direct you to page 7 of your
22 testimony, please.

23 A. Yes.

24 Q. And I would like to ask you to read the
25 line that contains the phrase price squeeze.

1 MS. ANDERL: Objection, Your Honor. I
2 don't think it's necessary to reread the witness's
3 testimony into the record.

4 MS. KAYE: It's one line and I believe that
5 you've asked your witness --

6 JUDGE WALLIS: For convenience the witness
7 may do so.

8 A. "I regard U S WEST proposal as a predatory
9 act equivalent to a price squeeze."

10 Q. And so are you saying that U S WEST is
11 committing a price squeeze here or are you saying that
12 they're doing something that's akin to a price
13 squeeze?

14 A. It's akin in my opinion to a price squeeze.

15 Q. Now, in a price squeeze, a price squeeze
16 occurs when there's a monopoly provider of a service
17 and is selling the service element at a cost that
18 makes it uneconomic to resell it; is that correct?

19 A. That's correct.

20 Q. And how is this U S WEST proposal to
21 withdraw Centrex Plus service like a price squeeze?

22 A. Well, I think going back to the issue on
23 uneconomic, part of the argument, I guess, before has
24 been that this is an uneconomic price squeeze. That
25 the companies like Shared Communications, I believe

1 that the reference was simply served through the
2 tariff to find arbitrage opportunities. In our
3 particular case I believe we do have some avoided
4 costs for U S WEST as part of what we provide for
5 service. There is a cost associated with that for
6 SCS. Any time you reduce the opportunity for any
7 margin or arbitrage on the SCS side of the house
8 you're involved in a price squeeze.

9 Q. Is U S WEST right now the only provider of
10 Centrex service in the areas of Washington where you
11 provide service?

12 A. To the best of my knowledge, yes.

13 Q. And if they withdraw that service, is there
14 anyone else out there from whom you can buy the piece
15 parts or the service itself to sell?

16 A. Not that I am aware of.

17 MS. KAYE: No further questions.

18 JUDGE WALLIS: Any questions from the
19 Commissioners?

20 CHAIRMAN NELSON: Yes, just a couple.

21

22 EXAMINATION

23 BY CHAIRMAN NELSON:

24 Q. Where is Waverly?

25 A. I'm sorry?

1 Q. Where is Waverly?

2 A. Waverly, Oregon. There's a Waverly, Oregon
3 and there's a Waverly, Washington, I believe. There's
4 a very small community out there.

5 Q. It was mentioned in your testimony. I
6 assumed it was in Washington.

7 A. Yes.

8 Q. I don't know where it is.

9 A. East. Yakima.

10 Q. Near Yakima?

11 A. Yeah, that's it.

12 Q. Can you just give me a flavor of how you
13 market to your customers? Newspaper ads? Web sites?

14 A. We market essentially one-on-one across a
15 desk. We do some, but very limited, telemarketing for
16 appointments. We don't close business over the
17 phone. We close business sitting in front of a
18 customer. We do some Yellow Page advertising. We
19 have done some but very limited direct mail piece in
20 the past but found that that's not a success for us.
21 So it's really one-on-one across the desk.

22 Q. So you have a sales force of how many?

23 A. We have a sales force of approximately 30
24 sales people throughout Oregon, Washington and Reno,
25 Nevada. We just recently opened an office in Reno.

1 CHAIRMAN NELSON: Thank you. That's all.

2

3 EXAMINATION

4 BY JUDGE WALLIS:

5 Q. Mr. Rains, I want to clarify what I thought
6 you were saying or thought you might have been saying
7 by asking does your firm now or does it intend to
8 resell Centrex service as a substitute for basic local
9 exchange service?

10 A. Yes, we do.

11 Q. You do now?

12 A. We sell -- the only product that we sell
13 from a network standpoint with regard to central
14 office functionality is a Centrex product today. In
15 the future, depending on where everything shakes out
16 on the federal act and with interconnection agreements
17 and things like that we may or may not go into
18 providing our own dial tone. For us -- it truly is an
19 economic question for us because we are not a large
20 provider. We don't have the deep pockets that maybe
21 some of our competitors have. We have to pick and
22 choose very carefully. All of our customers are with
23 us by choice. We don't have any customers that don't
24 stay with us for anything other than service.
25 Price is what gets us maybe the opportunity to get a

1 customer but it's service that keeps them. So going
2 back to the economic issue, if we can't do it for a
3 reasonable amount of money it's going to limit our
4 opportunity in the marketplace.

5 Q. Are you marketing exclusively to multi-
6 line business customers or are you marketing to what's
7 been termed I think the 1FR or 1FB customers?

8 A. We have both. Most of our customers are
9 small to medium size users. In the state of
10 Washington some of the limitations based on how the
11 pricing sits today -- we market to a customer it's
12 probably on average a five to six line customer. We
13 do have larger customers out there but by and large
14 the market that we have found that we're most
15 successful in providing good customer service is the
16 smaller users. We essentially try to become their
17 telecommunications back room. Smaller customers don't
18 have the money to devote to it. If they're selling
19 shoes for a living they don't have a telecom person
20 and it's a very confusing business. We hope to take
21 that burden on for them. We become the single point
22 of contact for them. We answer virtually any question
23 related to telephone for them.

24 Q. Do you serve customers that have only one
25 line and would you serve either a business or a home

1 for that customer?

2 A. We do have customers with one line.
3 Residential is not a focus for us at this point. We
4 do have residential customers as a result of a
5 business relationship. Maybe it's an attorney that
6 also has business that they do after hours and so
7 we'll consolidate a bill for them, but residential is
8 not our focus today.

9 JUDGE WALLIS: Are there any other
10 questions of the witness?

11 MS. ANDERL: Just one or two follow-up from
12 Ms. Kaye's question.

13

14 RE-CROSS-EXAMINATION

15 BY MS. ANDERL:

16 Q. Mr. Rains, are you aware that there are
17 facilities-based new entrant carriers providing
18 service in the downtown Seattle area?

19 A. Yes.

20 Q. Such as TCG and ELI?

21 A. Yes. I think from what I understand they
22 do single building type applications, shared
23 tenant kind of work from what I understand.

24 Q. Are you aware that TCG markets a Centrex
25 service?

1 A. I was not aware of it until I saw the
2 brochure but other than that I've never talked to TCG,
3 and I am not familiar with what their product may or
4 may not be. I'm not even sure it's real.

5 Q. Do you have any reason to believe that it's
6 not?

7 A. This is an industry made up of a great deal
8 of vapor in some cases. So until I can touch and feel
9 it and say yes it works for our subscribers I wouldn't
10 say it's real or not. We have carriers out there
11 providing service that can't provide a bill, as odd as
12 that may sound. Some of our customers will actually
13 depend on the phone to run their business to run
14 market surveys, so I have no firsthand knowledge of
15 that company or their product line.

16 Q. So can I take it from your answer that you
17 have not entered into discussions with them to resell
18 their product?

19 A. Yes, you may.

20 MS. ANDERL: Thank you. That's all.

21 JUDGE WALLIS: Anything further of the
22 witness? It appears that there is not. Mr. Rains,
23 thank you very much for appearing today. You're
24 excused from the stand. Let's be off the record for a
25 scheduling discussion.

1 (Discussion off the record.)

2 JUDGE WALLIS: Let's be back on the record
3 for just a moment to announce the results of our
4 scheduling discussion which are that we will resume at
5 9:00 tomorrow morning with the testimony of Mr.
6 Artman. Thank you all.

7 (Hearing adjourned at 4:30 p.m.)

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