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2
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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UT 125

In the Matter of the Application of)
QWEST CORPORATION for an Increase in)
Revenues.)

DATE: May 29, 2001

TIME: 1:00 p.m.

PLACE: Agriculture Building, Basement
Large Hearing Room
635 Capitol Street NE
Salem, Oregon 97301-2551

BEFORE: Ruth Crowley
Administrative Law Judge

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JUN 14 2001

Public Utility Commission of Oregon
Administrative Hearings Division

ORIGINAL

VOLUME 1
Pages 1 - 123

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DOCKETED

APPEARANCES

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Ms. Ruth Crowley, Administrative Law Judge;
Ms. Ann Hopfenbeck, WorldCom;
Mr. Jason Jones, PUC Staff;
Mr. Robert Manifold, AARP;
Mr. Lawrence Reichman, Qwest;
Mr. Mark Trincherro, AT&T;
Mr. Mike Weirich, PUC Staff.

--ooOoo--

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8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

Proceedings held May 29, 2001 ----- 1
Proceedings held May 30, 2001 ----- 124
Proceedings held May 31, 2001 ----- 337
Proceedings held June 1, 2001 ----- 536

<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
<u>FOR QWEST:</u>		
Robert Brigham	Direct by Mr. Reichman	3
	Cross by Ms. Hopfenbeck	6
	Cross by Mr. Trincherro	33
	Cross by Mr. Weirich	36
	Redirect by Mr. Reichman	39
	Recross by Ms. Hopfenbeck	45
	Redirect by Mr. Reichman	46
David Teitzel	Direct by Mr. Reichman	47
	Cross by Ms. Hopfenbeck	54
	Cross by Mr. Trincherro	93
	Cross by Mr. Weirich	102
	Cross by Mr. Manifold	110
	Redirect by Mr. Reichman	119
	Recross by Mr. Weirich	124
Dr. Aniruddha Banerjee	Direct by Mr. Reichman	127
	Cross by Mr. Trincherro	130
	Cross by Ms. Hopfenbeck	167
	Cross by Mr. Weirich	169
	Redirect by Mr. Reichman	171
	Recross by Mr. Trincherro	179
<u>FOR AT&T:</u>		
Dr. Lee Selwyn	Direct by Mr. Trincherro	182
	Cross by Mr. Reichman	185
	Cross by Mr. Weirich	213
	Redirect by Mr. Trincherro	227
	Redirect by Ms. Hopfenbeck	229
	Recross by Mr. Reichman	234
	Redirect by Mr. Trincherro	244
	Recross by Mr. Reichman	250

I N D E X (cont.)

2	<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
3	<u>FOR PUC STAFF:</u>		
	Thomas Turner	Direct by Mr. Weirich	260
4		Cross by Mr. Reichman	261
		Cross by Mr. Trincherro	290
5		Cross by Mr. Manifold	289
		Redirect by Mr. Weirich	294
6		Recross by Mr. Reichman	296
7	<u>FOR AT&T:</u>		
	Arlene Starr	Direct by Mr. Trincherro	298
8		Cross by Mr. Reichman	300
		Redirect by Mr. Trincherro	334
9	<u>FOR QWEST:</u>		
10	Scott McIntyre	Direct by Mr. Reichman	337
		Cross by Mr. Trincherro	342
11		Redirect by Mr. Reichman	379
		Recross by Mr. Trincherro	384
12	<u>FOR WORLDCOM:</u>		
13	Anthony DiTirro	Direct by Ms. Hopfenbeck	387
		Cross by Mr. Reichman	388
14		Redirect by Ms. Hopfenbeck	404
		Recross by Mr. Reichman	406
15	<u>FOR PUC STAFF:</u>		
16	Lance Ball	Direct by Mr. Jones	414
		Cross by Mr. Reichman	415
17		Cross by Mr. Manifold	437
		Cross by Mr. Trincherro	440
18		Redirect by Mr. Jones	443
		Recross by Mr. Reichman	446
19	Cynthia Van Landuyt	Direct by Mr. Weirich	452
20		Cross by Mr. Reichman	453
		Cross by Mr. Trincherro	470
21		Redirect by Mr. Weirich	473
		Recross by Mr. Reichman	475
22	<u>FOR AARP:</u>		
23	Dr. Pamela Cameron	Direct by Mr. Manifold	476
		Cross by Mr. Reichman	479
24		Cross by Mr. Weirich	498
		Cross by Mr. Trincherro	503
25		Redirect by Mr. Manifold	504

1

I N D E X (cont.)

2	<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
3	<u>FOR PUC STAFF:</u>		
	Jim Stanage	Direct by Mr. Jones	506
4		Cross by Mr. Reichman	507
		Cross by Mr. Manifold	525
5		Recross by Mr. Reichman	533
6	<u>FOR QWEST:</u>		
	David Teitzel - PAL issues		
7		Cross by Mr. Harlow	540
		Redirect by Mr. Reichman	628
8		Recross by Mr. Harlow	635
9	David Teitzel - Centrex issues		
		Cross by Mr. Harlow	637
10		Redirect by Mr. Reichman	701
		Recross by Mr. Harlow	708
11			
	<u>FOR NWPA:</u>		
12	Don Wood	Direct by Mr. Harlow	709
		Cross by Mr. Reichman	714
13		Redirect by Mr. Harlow	760
		Recross by Mr. Reichman	764
14			
	<u>FOR ATG:</u>		
15	Dr. Nina Cornell	Direct by Mr. Harlow	765
		Cross by Mr. Reichman	767
16		Redirect by Mr. Harlow	785
		Recross by Mr. Reichman	788
17		Redirect by Mr. Harlow	790
		Recross by Mr. Reichman	791
18			
		---ooOoo---	
19			
20			
21			
22			
23			
24			
25			

E X H I B I T S

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 201	Teitzel direct testimony -----	52
Qwest 202	(Teitzel) Basic Exchange Pricing Summary Residential (Confidential) -----	52
Qwest 203	(Teitzel) Basic Exchange Pricing Summary Business (Confidential) -----	52
Qwest 204	(Teitzel) Extended Area Service (Confidential) -----	52
Qwest 205	(Teitzel) Centrex Plus Services (Confidential) -----	52
Qwest 206	(Teitzel) Vertical Features/services (Confidential) -----	52
Qwest 207	(Teitzel) Listing Services (Confidential) --	52
Qwest 208	(Teitzel) IntaLATA Long Distance Services (Confidential) -----	52
Qwest 209	McIntyre Direct Testimony -----	342
Qwest 210	(McIntyre) Private Line Diagram -----	342
Qwest 211	(McIntyre) Oregon Analog Private Line Proposal (Confidential) -----	342
Qwest 212	(McIntyre) Oregon Digital Data Proposal (Confidential)-----	342
Qwest 213	(McIntyre) DS1 Service Proposal (Confidential) -----	342
Qwest 214	(McIntyre) Switched Access Network Diagram -	342
Qwest 215	(McIntyre) Current Switched Access Price Structure -----	342
Qwest 216	(McIntyre) Proposed Switched Access Price Structure -----	342
Qwest 217	(McIntyre) Oregon Switched Access Proposal -	342
Qwest 218	Brigham Direct Testimony -----	6

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 219	(Brigham) Summary of Selected Rate Design Proposals (Confidential) -----	6
Qwest 220	(Brigham) Deaveraged Loop Zones Qwest-Oregon -	6
Qwest 221	(Brigham) Oregon Residence Access Line NRC Study (Confidential) -----	6
Qwest 222	Teitzel Rebuttal Testimony -----	52
Qwest 223	(Teitzel) Verizon responses to Qwest data requests -----	52
Qwest 224	(Teitzel) Staff responses to Qwest data request 11 -----	52
Qwest 225	(Teitzel) Metronet v. Qwest, granting Qwest's motion for summary judgment -----	52
Qwest 226	Banerjee Rebuttal Testimony -----	129
Qwest 227	(Banerjee) Qualifications -----	129
Qwest 228	Bailey Rebuttal Testimony -----	536
Qwest 229	McIntyre Rebuttal Testimony -----	342
Qwest 230	Brigham Rebuttal Testimony -----	6
Qwest 231	(Brigham) New Mexico Proceedings transcript -	6
Qwest 232	Supplemental Responses to Qwest's Second Set Data Requests (Confidential) -----	194
Qwest 233	Draft from UT85 of Toll, Access, Custom Calling Rates -----	279
Qwest 234	Article by Armando Levy - Semi-Parametrics Estimates -----	281
Qwest 235	WorldCom's Responses to Qwest's first set of Data Requests (Confidential) -----	401
Qwest 236	WorldCom's Responses to Qwest's third set of Data Requests (Confidential) -----	401

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 237	WorldCom's Supplemental Responses to Qwest's third set of Data Requests (Confidential) --	401
Qwest 238	Proposed Amendments to House Bill 2659 -----	538
Qwest 239	Request 01-003 to NWPA -----	726
Qwest 240	Request 03-033 to U.S. West -----	735
Qwest 241	Request 03-032 to U.S. West -----	775
	--ooOoo--	
Staff 1	Ball Direct Testimony -----	415
Staff 2	(Ball) Qualifications, Recommended Rate Spread by Service, by Customer Class, Comparison of Qwest and Staff Rate Spread by Major Service Category -----	415
Staff 3	Van Landuyt Direct Testimony -----	453
Staff 4	(Van Landuyt) Qualifications; Switched Access Service -----	453
Staff 5	(Van Landuyt) Switched Access Rate Design (Confidential) -----	453
Staff 6	(Van Landuyt) Private Line Service -----	453
Staff 7	(Van Landuyt) Private Line Rate Design (Confidential) -----	453
Staff 8	Turner Direct Testimony -----	260
Staff 9	(Turner) Qualifications; Message Toll Service Rates Exhibits (Tables, FCC Study) -----	260
Staff 10	(Turner) Toll Revenue and Demand Analysis (Confidential) -----	260
Staff 11	(Turner) Access Imputation Analysis (Confidential) -----	260
Staff 12	(Turner) Price Elasticity Study (Confidential) -----	260

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Staff 13	Sloan Direct Testimony -----	414
Staff 14	(Sloan) Non-confidential exhibits in support of direct, pp. 1-12 -----	414
Staff 15	(Sloan) Pages 2-12, exhibits to Sloan testimony issues (Confidential) -----	414
Staff 16	Stanage Direct Testimony (EAS; Advanced services, business and residential local exchange access; residential NRC) -----	516
Staff 17	(Stanage) Qualifications -----	506
Staff 18	(Stanage) Non-confidential exhibits in support of direct, pp. 1-8 -----	506
Staff 19	(Stanage) Exhibits in support of direct (Confidential) -----	506
Staff 20	Turner Rebuttal Testimony -----	260
Staff 21	(Turner) Status Report in UM 962 Wholesale Discounts -----	260
Staff 22	Two pages, CALLS Analysis -----	500
--ooOoo--		
AARP 1	Cameron Direct Testimony -----	479
AARP 2	(Cameron) Qualifications -----	479
AARP 3	Cameron Rebuttal Testimony -----	479
--ooOoo--		
ATG 1	Cornell Direct Testimony -----	766
ATG 2	(Cornell) Qualifications -----	766
ATG 3	ATG's Request 03-019 to Qwest -----	654
ATG 4	(Not offered)	
ATG 5	Centrex Prime Pricing (Confidential) -----	664

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
ATG 6	Excerpt of Dennis Hruska Deposition, Metronet v. U.S. West -----	667
ATG 7	Centrex Prime Issues (Confidential) -----	667
ATG 8	Small Business Basic Exchange Service, Key Beliefs and assumptions - Tedd Bell (Confidential)-----	679
ATG 9	High level impacts of ONA resale from Judette Hemachandra to Mark Reiger (Confidential) --	672
ATG 10	Fifteenth Supplemental Order, Docket UT-950200 -----	683
ATG 11	ATG's Request 02-014 to Qwest -----	692
ATG 12	ATG's Request 02-004S1 to Qwest -----	692
	--ooOoo--	
AT&T 1	Starr Direct Testimony -----	299
AT&T 1	Starr Direct Testimony (Confidential) -----	299
AT&T 2	(Starr) Response to Data Request 003 -----	299
AT&T 3	(Starr) Comparison of Qwest intrastate rates to FCC interstate rates -----	299
AT&T 4	(Starr) Response to Data Request 006,007 ---	299
AT&T 5	(Starr) Response to Data Request 002 -----	299
AT&T 6	(Starr) Response to Data Request 001 -----	299
AT&T 7	(Starr) Qwest proposed Oregon intrastate rates, percent markup over UM 844 -----	299
AT&T 8	(Starr) Present Market Structure -----	299
AT&T 9	Data Request Response 02-025 -----	101
AT&T 10	Draft Proposed Amendments HB 2659 -----	101
AT&T 11	Data Request Response 04-026 (Confidential)	167

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
AT&T 12	Data Request Response 04-027 (Confidential)	167
AT&T 13	Data Request Response 04-028 -----	167
AT&T 14	Data Request Response 04-037, Article by Rappaport -----	167
AT&T 15	Qwest's Form 10Q -----	353
AT&T 16	Data Request Response 04-040 -----	376
	--ooOoo--	
AT-W 1	Selwyn Direct Testimony -----	185
AT-W 1	Selwyn Direct Testimony (Confidential) -----	185
AT-W 2	(Selwyn) Qualifications -----	185
AT-W 3	(Selwyn) Percent Change in California Residence and Business MTS Rates -----	185
AT-W 4	(Selwyn) Percent Change in Residence MTS per Qwest's Proposal -----	185
AT-W 5	(Selwyn) Revised Toll Imputation Calculation (Confidential) -----	185
	--ooOoo--	
NWPA 1	Wood Direct Testimony -----	710
NWPA 1	Wood Direct Testimony (Confidential) -----	710
NWPA 2	(Wood) Qualifications -----	710
NWPA 3	(Wood) Proposed PAL Rates (Confidential) -----	710
NWPA 4	(Wood) Alternative Proposed PAL Rates (Confidential) -----	710
NWPA 5	Response to Data Request 03-008 -----	574
NWPA 6	Response to Data Request 03-011 -----	581
NWPA 7	Response to Data Request 04-039 -----	582

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
NWPA 8	Response to Data Request 04-037	----- 588
NWPA 9	Response to Data Request 04-040	----- 595
NWPA 10	Response to Data Request 05-053	----- 596
NWPA 11	Response to Data Request 05-050	----- 618
NWPA 12	Response to Data Request 03-035	----- 623
NWPA 13	Response to Data Request 03-021 (Confidential)-----	626
NWPA 14	Response to Data Request 03-030	----- 626
NWPA 15	Response to Data Request 04-036	----- 627

--ooOoo--

WorldCom 1	DiTirro Direct Testimony	----- 388
WorldCom 2	Selwyn Direct Testimony	----- 19
WorldCom 3	(Not admitted)	
WorldCom 4	Response to Data Request 03-022	----- 96

--ooOoo--

1 SALEM, OREGON, TUESDAY, MAY 29, 2001

2

3 ALJ CROWLEY: My name is Ruth Crowley. I'm the
4 Administrative Law Judge assigned to this matter. This is
5 the time and place set for cross examination hearing in the
6 matter of docket UT 125, Phase II. And we've posted a
7 schedule of witnesses.

8 I have the following appearances: Mike Weirich
9 representing PUC Staff. Robert Manifold representing
10 AARP. Lawrence Reichman representing Qwest.

11 And if you would please give me an appearance
12 slip. And this is a schedule of exhibits and the schedule
13 of witnesses.

14 MS. HOPFENBECK: My apologies, Judge Crowley. It
15 was my fault you're all waiting.

16 ALJ CROWLEY: But you're here in time.

17 MS. HOPFENBECK: We are here.

18 ALJ CROWLEY: You're here in time to start Mr.
19 Brigham on time.

20 MS. HOPFENBECK: Except for Mark Trincherro who is
21 parking the car who will be here momentarily. But I'm
22 going first.

23 ALJ CROWLEY: All right. So I take it this is
24 Ms. Hopfenbeck?

25 MS. HOPFENBECK: Yes.

1 ALJ CROWLEY: Representing WorldCom. We've just
2 been discussing preliminary matters, moving Mr. Stanage
3 from Friday to Thursday. And do you have any objection to
4 that?

5 MS. HOPFENBECK: I do not.

6 ALJ CROWLEY: You do not have any cross for him?

7 MS. HOPFENBECK: I do not.

8 ALJ CROWLEY: Confidential matters may arise,
9 we'll ask people who are not signatories to the protective
10 order to leave the room.

11 MS. HOPFENBECK: All right.

12 ALJ CROWLEY: Why don't you take a moment to get
13 settled and then we'll call Mr. Brigham and begin.

14 MS. HOPFENBECK: Thank you.

15 MR. REICHMAN: Qwest calls Robert Brigham to the
16 stand.

17 THE WITNESS: Where is the stand?

18 ALJ CROWLEY: The stand is right here.

19 THE WITNESS: I thought it was over here but Ann
20 took this spot.

21 MS. HOPFENBECK: Well --

22 ALJ CROWLEY: That's fine. Would you raise your
23 right hand, please.

24 (Witness sworn by the Administrative Law Judge)

25 ALJ CROWLEY: Thank you. Please be seated. And

1 state and spell your name for the record.

2 THE WITNESS: Yes. My name is Robert H.
3 Brigham. Last name is spelled B-r-i-g-h-a-m.

4 ALJ CROWLEY: Thank you.

5 --ooOoo--

6 ROBERT H. BRIGHAM,

7 Thereupon called as a witness on behalf of Qwest, first
8 duly sworn, was examined and did testify as follows:

9

10 DIRECT EXAMINATION

11 BY MR. REICHMAN:

12 Q Mr. Brigham, have you submitted prefiled exhibits
13 in this case?

14 A Yes, I have.

15 Q And do you have in front of you Exhibit Qwest
16 218, which is your direct testimony?

17 A Yes, I do.

18 Q And attached to that are Exhibits Qwest 219, 220
19 and 221?

20 A That is correct.

21 Q And you also have in front of you your rebuttal
22 testimony, Exhibit Qwest 230?

23 A Yes.

24 Q And there is one attached exhibit to that Qwest
25 231?

1 A Yes.

2 Q Are there any corrections that you wish to make
3 to your testimony or exhibits?

4 A The only correction that I have is in Exhibit 230
5 on page 11. This is my rebuttal testimony.

6 Q Okay.

7 A On line 1 of that page -- and I'm hoping that
8 everyone has the same line numbers here. But it's a
9 sentence that says -- starts on the previous page. The
10 question is, "What is the impact of correcting this error
11 in Dr. Selwyn's analysis."

12 Q That's the question on the bottom of page 10 of
13 Exhibit 230?

14 A Yes.

15 Q Okay. And the correction you have is on page 11?

16 A And the correction I have is on page 11. Line 1
17 it says, "As the weighted rates on lines 8 and 9 would be
18 eliminated", scratch off "and 9".

19 So it should read, "As the weighted rates on line
20 8 would be eliminated".

21 Q Mr. Brigham, excuse me. I think on the version
22 that we filed it actually appears on the bottom of 10.

23 ALJ CROWLEY: That's where I have it.

24 Q BY MR. REICHMAN: Line 24 starts with the words
25 "weighted rates on lines 8 and 9 would be eliminated."

1 Could you state again what that should be?

2 A The whole sentence should read, "The elimination
3 of independent originated calls from Dr. Selwyn's analysis
4 would reduce the total access number shown on line 10 of
5 his analysis, as the weighted rates on line 8 would be
6 eliminated."

7 Q Okay. And do you have any other corrections you
8 wish to make?

9 A Yes. At the end -- this would be on page 11
10 also. The question is, "Why should an imputation analysis
11 consider billing and collections costs rather than rates."

12 And the last sentence of that answer, it seemed to
13 be something got cut off. And it should say instead of the
14 cost of billing and collections, it should say "The cost of
15 billing and collections that is included in the Qwest
16 imputation analysis provided in Exhibit Qwest 219,
17 Brigham 81 is the TSLRIC"; T-S-L-R-I-C, "for billing and
18 collections."

19 And that concludes my corrections.

20 Q Thank you. With those corrections, are the
21 answers to the questions contained in your prefiled
22 exhibits true and correct?

23 A I believe so, yes.

24 MR. REICHMAN: Your Honor, at this time we would
25 offer Exhibits Qwest 218, 219, 220, 221, 230, and 231.

1 ALJ CROWLEY: And I asked for prefiled
2 evidentiary objections. And I had none, so those are
3 admitted.

4 MR. REICHMAN: And with that, Mr. Brigham is
5 available for cross examination.

6 ALJ CROWLEY: Okay. Ms. Hopfenbeck?

7 --ooOoo--

8 CROSS EXAMINATION

9 BY MS. HOPFENBECK:

10 Q Good afternoon, Mr. Brigham.

11 A Good afternoon.

12 Q I'm going to be speaking with you today about
13 your Exhibit 230, the rebuttal testimony you filed on May
14 3rd. So do you have that before you?

15 A Yes, I do.

16 Q Okay. Initially why don't we start on page 5 of
17 that testimony.

18 As I understand Qwest's imputation analysis that
19 you have performed in this proceeding is that you have
20 imputed the building block rates established in UM 844 into
21 the price for toll services; is that true?

22 A That is correct.

23 Q You did not impute the rates that interexchange
24 carriers pay for switched access services?

25 A No. Exhibit 219 does not do that.

1 Q Okay. And that's because in your view switched
2 access is not an essential element of toll service; is that
3 right?

4 A I think when we did Exhibit 219, we did try to
5 impute the building blocks rather than switched access. I
6 would argue that switched access is not essential.
7 However, as you saw in my testimony, I did address the fact
8 that if you did do switched access imputation, what would
9 have happened.

10 Q I understand that. Mr. Brigham, just so the
11 record is clear, I'd ask you to answer my question yes or
12 no, if you can, and then you'd be free to explain your
13 answer after you've answered the question. But I think
14 that it will make the record clearer.

15 I understand the answer to my question is that in
16 your view, switched access is not an essential element of
17 providing toll services; is that right?

18 A That would be my opinion, yes.

19 Q Okay. Now, in determining -- in concluding that
20 switched access is not an essential element, you have
21 articulated at the bottom of page 5 your perception that
22 interexchange carriers have alternatives to switched access
23 that they can use to reach their customers. Do you see
24 that?

25 A Yes. That's correct.

1 Q Now, is that one of the principal factors that
2 you considered in determining that switched access is not
3 an essential element?

4 A Certainly that's a major part of why I believe
5 it's not essential. However, I don't think whether it's
6 essential or not is critical to the testimony here, as I
7 think we answered in an interrogatory response.

8 Q Well, Mr. Brigham, I just am going to ask you
9 some questions about this, and I think your testimony will
10 explain your perception of things. We'll get to the later
11 portions of your testimony, I assure you.

12 Okay. Let's -- I'd like to explore with you a
13 little bit about those alternatives to switched access.
14 First of all, do you agree that access service is the
15 function of terminating an originating toll traffic that
16 Qwest performs for IXCs?

17 A Yes. It's either switched access or special
18 access if it goes through the Qwest network, yes.

19 Q And if it's on the Qwest network, the one thing
20 that's really -- that you have to have in order to
21 terminate or originate toll traffic is a connection to the
22 end use customer; isn't that right?

23 A Yes.

24 Q So that in some cases -- in many cases in the
25 state of Oregon that connection is by means of the loop

1 that is part of the retail basic exchange service. Do you
2 agree?

3 A Yes.

4 Q And in other cases that connection is made by
5 virtue of a dedicated facility between the end use customer
6 and either the IXC's point of presence or a dedicated
7 facility that's part of Qwest's network; isn't that right?

8 A Yes. If it's Qwest's network, it would either be
9 a switched access or special access private line.

10 Q And special access, that is private line or
11 dedicated service; isn't that right?

12 A Yeah. We tend to call it direct connect.

13 Q Okay. Dedicated facility is not used to -- it's
14 not economic to use dedicated facility to provide access to
15 all customers, is it?

16 A No.

17 Q Does Qwest itself provision intra -- or provide
18 intraLATA toll service or carry intraLATA toll service for
19 its customers on dedicated facilities?

20 A Well, I think when Qwest provides toll service,
21 it's through the facility to the customer. Generally if
22 it's a toll service, it's through the switched network.

23 Q And the facility to the customer in some cases is
24 a dedicated facility, a private line facility; is that
25 fair?

1 A Well, I think if somebody's purchasing our toll
2 service, it's certainly my understanding that it would use
3 the switched network.

4 Q Well, just from the standpoint of an
5 interexchange carrier, you would agree that in deciding
6 between using special or switched access service from
7 Qwest, the amount of traffic that a customer had would be
8 relevant to that decision?

9 A Yes.

10 Q And it's only the customers that have sufficient
11 intraLATA toll traffic to justify installation of a
12 dedicated facility, that that means that access would be
13 used. Do you agree?

14 A Yes. I think dedicated access becomes more
15 economic with higher volumes.

16 Q And wouldn't you agree that the vast majority of
17 end users, small business and residential end users in the
18 state of Oregon, are not served with such dedicated
19 facilities; is that right?

20 A I don't know the exact amount that is -- that is
21 offered via -- when we provide access, I'm not sure what
22 the percentage in Oregon is of dedicated access versus
23 switched access versus other alternatives, such as other
24 providers.

25 Q Would you agree from an economic perspective it

1 probably makes more sense to serve the majority of
2 residential and business customers by means of switched
3 access?

4 A Certainly small --

5 MR. REICHMAN: I just want to object and ask for
6 a clarification. Are you asking if the provider is Qwest,
7 the provider for toll service is Qwest, or the provider of
8 the toll service is someone like WorldCom, would it be more
9 economic? You kind of asked both of those, touched on both
10 of those issues.

11 MS. HOPFENBECK: I think Mr. Brigham was
12 answering the question I asked and understood it. I'm
13 taking from the perspective of interexchange carrier.

14 THE WITNESS: Could you repeat the question?

15 Q BY MS. HOPFENBECK: Yeah. Would you agree that
16 for the vast majority of residential and small business
17 customers, switched access would be the appropriate choice,
18 versus special access or some other dedicated access, from
19 an economic standpoint?

20 A If they were using Qwest's access -- certainly
21 there are other alternatives. But if they're using Qwest
22 access, then for small customers without a lot of usage, it
23 would probably make sense to use switched access rather
24 than dedicated.

25 Q Okay. Thanks. Now, page 6 I think you

1 acknowledge in your rebuttal testimony that you have not --
2 you've decided not to produce evidence in this proceeding
3 to demonstrate that switched access is not an essential
4 function; is that right?

5 A That's correct.

6 Q You don't think it's necessary to your analysis;
7 is that fair?

8 A Yes.

9 Q Okay. Now, let's move onto your discussion that
10 begins on page 6 concerning average revenue per minute. In
11 this section of your testimony you are discussing the way
12 Qwest believes an appropriate imputation analysis should
13 occur; is that right?

14 A Yes.

15 Q Okay. And it's Qwest's belief that in
16 determining whether or not there is a price squeeze, it's
17 important to compare the average rate per minute for all
18 toll services with the imputed price war; is that fair?

19 A It's the average revenue per minute for all toll
20 services.

21 Q Excuse me. I misspoke.

22 Now, at page 6, you reference the fact that you
23 are aware that interexchange carriers -- and I assume Qwest
24 as well -- provide toll service through a variety of
25 calling plans; is that right?

1 A Yes.

2 Q And so -- and those calling plans basically
3 provide a variety of rates per minute; is that right?

4 A Yes.

5 Q Some plans will be targeted at customers whose
6 calling patterns -- whose peak calling requirements are
7 evening, some are targeted at customers whose calling is
8 mostly during the day. Would you agree?

9 A Yeah. I think Mr. Teitzel would probably be best
10 able to explain exactly who each plan is targeted to. But
11 they're targeted to different customers.

12 Q Okay. But basically you assert at page 6 that
13 the interexchange carriers in assessing their own
14 profitability will consider the average rate per minute --
15 or average revenue per minute they receive from all their
16 plans; is that right?

17 A Yes.

18 Q Now, let's see. Where to go next? I guess I
19 want to talk to you a little bit about what Qwest's Super
20 Savings plan.

21 First of all, Super Savings as proposed in this
22 proceeding for business customers would reduce --

23 MS. HOPFENBECK: First of all, is that a
24 confidential number, the rate per minute?

25 MR. REICHMAN: The rate per minute?

1 MS. HOPFENBECK: That Qwest is proposing per
2 minute?

3 MR. REICHMAN: On the cost, the rate, no.

4 Q BY MS. HOPFENBECK: Qwest is proposing a Super
5 Savings plan that would be a rate per minute of about 6
6 cents per minute; is that right?

7 A I believe so, yes.

8 Q And that's six cents for business customers 24
9 hours a day, seven days a week?

10 A I believe so, yes.

11 Q There's no monthly minimum associated with the
12 Super Savings plan, is there?

13 A You may want to ask Mr. Teitzel that.

14 Q Okay. He would --

15 A He's really the expert on the rate structure.

16 Q Are you -- can you testify, is there -- are you
17 aware of whether there's a monthly fee involved in Super
18 Savings?

19 A I'm not sure. You might want to ask Mr.
20 Teitzel.

21 Q Okay. Let me ask you this hypothetically.
22 Stepping away from Super Savings for a moment, would you
23 agree that one type of calling plan that's common in the
24 market is a calling plan that has a rate per minute, that's
25 a low rate per minute, and it is combined with either a

1 monthly fee or a monthly minimum. Have you seen those kind
2 of plans, Mr. Brigham?

3 MR. REICHMAN: I'm going to object. This witness
4 really testified about the cost of imputation. He did not
5 testify about the details of the retail plans. And as he's
6 indicated, he's not familiar with a lot of these details.

7 MS. HOPFENBECK: Your Honor, this witness does
8 give extensive testimony on why an average rate per minute
9 should be -- average revenue per minute should be used in
10 doing a proper imputation analysis. And the only way to
11 really go after that is to explore how you go about and
12 calculate average revenue per minute, which is having an
13 understanding of all the different elements that go into
14 provisioning intraLATA toll service. So I think this is
15 relevant.

16 And I'm prepared to, if the witness doesn't know,
17 set up some hypotheticals for him. And I think we can
18 establish this through other witnesses.

19 ALJ CROWLEY: All right. I'll give you some
20 latitude with this. If it appears the witness just
21 can't -- isn't prepared to answer that kind of question and
22 the hypotheticals are appropriate, then please go ahead
23 with those.

24 Q BY MS. HOPFENBECK: Mr. Brigham, are you aware of
25 plans that are out there in the market today being offered

1 by interexchange carriers that include monthly fees or
2 minimums in addition to a rate per minute?

3 A Yes, I'm aware that those plans exist. I'm
4 certainly not an expert on the details of them. But I'm
5 generally aware of that, yes.

6 Q Okay. Now, I'd like to give you a hypothetical
7 and ask you about that. Let's assume for a moment that
8 there is a plan with a rate per minute of six cents
9 available 24 by 7 and no monthly fee and no monthly
10 minimum. That's one hypothetical.

11 And then let's assume that under another plan the
12 rate per minute that's offered is six cents per minute but
13 there is a five dollar monthly fee paid by the customer to
14 obtain that six cent rate. Do you have that hypothetical
15 in mind?

16 A Yes.

17 Q Would you agree that under the second
18 alternative, the average revenue per minute that the
19 interexchange carrier will receive from customers
20 subscribing to that plan will be higher than six cents per
21 minute?

22 A Yes, I would agree with that, assuming that the
23 five dollar fee is specific to the toll plan.

24 Q And so you would agree that, assuming the rate
25 per minute is equal between plans, a plan that has a

1 monthly fee will generate a higher average revenue per
2 minute than a plan without a monthly fee; you would agree?

3 A Yes.

4 Q Now, at the top of page 7, you discuss some
5 testimony -- actually, it's at the top of page 8. Excuse
6 me. It's the top of page 8. You reference some testimony
7 that Dr. Selwyn presented in Colorado that you claim is
8 inconsistent with the position that Dr. Selwyn is taking in
9 this docket; is that right?

10 A Yes.

11 Q Just to explore that a little bit, Dr. Selwyn in
12 the -- in the imputation analysis that Dr. Selwyn did with
13 respect to Super Savings was simply a comparison of the
14 average revenue per minute derived from customers
15 subscribing to this Super Savings plan itself to the
16 imputation price floor that he developed; is that right?

17 A I believe he compared the price for that
18 particular plan with the imputation floor.

19 Q And you would agree that if it is true that Super
20 Savings contains no monthly minimum or monthly fee, the
21 price would be equivalent to the average revenue per
22 minute; is that right?

23 A The price for Super Savings would be, if there
24 were no monthly fee, would be the six cents that is listed
25 in the exhibit.

1 However, I mean, my main point to that is that we
2 need to look at the average revenue per minute for all
3 services, all toll services, not just that Super Savings
4 service. Because that's the way that -- that's the way
5 that interexchange carriers look at the products.

6 Q I understand your point. I just wanted to be
7 clear about you would agree that with Super Savings the
8 average revenue per minute to be derived from that plan,
9 assuming there's no monthly minimum or monthly fee, is
10 equal to the price per minute that Qwest is charging under
11 that plan; is that right?

12 A Yes.

13 Q Okay. Now, at this point I'd like to --

14 MS. HOPFENBECK: May I approach the witness?

15 ALJ CROWLEY: Yes.

16 MS. HOPFENBECK: Your Honor, I think I need some
17 direction as far as the exhibit number for this.

18 ALJ CROWLEY: Let's see. Where are you? This
19 would be WorldCom 2.

20 MS. HOPFENBECK: Okay. I did not realize -- I
21 couldn't remember what the protocol was. Okay. WorldCom
22 2.

23 Q BY MS. HOPFENBECK: Mr. Brigham, I have just
24 handed you what's been marked for identification as
25 WorldCom Exhibit 2. Do you have that before you?

1 A Yes.

2 Q Do you recognize this document as being the
3 testimony of Dr. Lee L. Selwyn submitted in Colorado in
4 docket number 00A-201 that you reference at the top of page
5 8 --

6 A Yes.

7 Q -- of Exhibit 230? I'm going to just ask you to
8 let me finish my questions before you answer so we don't
9 speak over one another.

10 A Sure.

11 Q Thanks.

12 MS. HOPFENBECK: Okay. At this point I'd move
13 for the admission of WorldCom Exhibit 2.

14 ALJ CROWLEY: Any objections?

15 MR. REICHMAN: No.

16 ALJ CROWLEY: Admitted.

17 Q BY MS. HOPFENBECK: Okay. Let's turn to your
18 critique of Dr. Selwyn's imputation analysis that begins on
19 page 9.

20 A I'm sorry. Are you looking at his Colorado
21 testimony or --

22 Q No, no, no. I just wanted to admit the testimony
23 so that the record was complete and had the testimony in
24 it.

25 I'd like you to turn now back to your rebuttal

1 testimony, Exhibit 230. And I'd like to turn -- you to
2 turn to page 9 when you discuss Dr. Selwyn's imputation
3 analysis.

4 Now, in this section of your testimony, you
5 identify what you conclude to be three errors in Mr.
6 Selwyn's analysis; is that correct?

7 A That is correct.

8 Q Okay. And I think one of the points that you
9 make is that any one of those errors, if corrected as you
10 recommend, would reduce the imputation cost to a level that
11 was below the six cents per minute that Qwest is proposing
12 for Super Savers; is that right?

13 A Yes.

14 Q Now, the first criticism that you have is that
15 Dr. Selwyn has included access rates for independent
16 originated calls in his imputation price floor; is that
17 right?

18 A That's correct.

19 Q Mr. Turner, the Staff's witness in this
20 proceeding addressing toll rates, has also included the
21 access cost paid to independents in his analysis; isn't
22 that right?

23 A I believe so, yes.

24 Q Okay. Now, you would agree that when an
25 interexchange carrier sets its prices for toll service that

1 it offers in the state of Oregon, it must set those prices
2 at such a level that it will cover its state-wide average
3 cost of switched access; would you agree?

4 A Yes, it would have to cover its own state average
5 cost. They may or may decide -- they may or may not decide
6 to serve independents that have high access charges. They
7 have the choice.

8 Q But if an IXC such as -- like WorldCom and AT&T
9 does serve state-wide, their rates have to be set at a
10 level that are sufficient to cover their costs paid to
11 Qwest as well as to the independents; is that right?

12 A Yeah. If they decide to serve all the
13 independent territories, then they would need to cover
14 those costs. However, they're not required to do so.

15 Q Now, you state at the bottom of page 10 and the
16 top of page 11 that you were not able to replicate Dr.
17 Selwyn's calculation. And you estimate that backing this
18 inclusion of independent access costs out would result in a
19 20 percent reduction in the total access amount on line 10.

20 Do you see that testimony?

21 A Yes.

22 Q What's the basis for your estimation there?

23 A Basically my experience working with cost -- or
24 imputation analyses that Qwest has performed where we've
25 done it both with the originating independent access

1 included and without it included, and it usually comes out
2 over 20 percent difference.

3 Q Now, isn't the impact of backing out or the
4 impact of including the access rates paid to independents,
5 isn't the impact dependent upon the relative distribution
6 of intraLATA toll minutes that an IXC has between Qwest and
7 the independents?

8 A Well, certainly you have several -- there are
9 several types of calls. That if you were going to weight
10 in the independent originating, you'd have to consider the
11 independent originating, terminating to an independent as
12 well as traffic going -- you know, originating and
13 terminating with Qwest.

14 Q And the impact of this adjustment is going to
15 differ depending on the assumptions that are made as to the
16 proportion of calls handled by independents as opposed to
17 the proportion handled by Qwest; isn't that fair?

18 A Yes.

19 Q And you didn't have that information available to
20 you in coming up with this 20 percent reduction; is that
21 right?

22 A Well, the 20 percent reduction that I came up
23 with was -- essentially the way I developed that is you
24 look at the imputation floor. If, in fact, you include an
25 independent originating and independent terminating along

1 with Qwest originating and terminating and then compared
2 that result, so those would be weighted together, then you
3 compare that result with a weighting of calls where you
4 consider only independent terminating and Qwest originating
5 and terminating. So you weight those together.

6 What I'm saying is that the second scenario
7 there, those costs would be about 20 percent less than if
8 you include the independent originating traffic.

9 Q And you had to make assumptions as to the
10 proportion of traffic that was being carried by
11 independents and the proportion of traffic that was being
12 carried by Qwest in order to arrive at this result; is that
13 right?

14 A Sure. And it's a rough estimate based on what
15 we've seen, you know, in imputation studies where we've
16 done that.

17 Q But you didn't have that information available to
18 do it with respect to Qwest or AT&T?

19 A Yes.

20 Q WorldCom or AT&T, did you?

21 A We did not file imputation analysis.

22 Q Thanks.

23 A I decided it would be more useful to work with
24 Dr. Selwyn's analysis.

25 Q Great. Now, you also criticize Mr. Selwyn's --

1 Dr. Selwyn's analysis because he has included the retail
2 price for billing and collection instead of what you insist
3 should be that cost of billing and collection; is that
4 right?

5 A That's correct.

6 Q Okay. And the reason why you think the cost
7 should be included instead of the price is because you
8 believe that billing and collection is not an essential
9 function provided by Qwest; is that right?

10 A That's correct. It's defined in 759.050 of the
11 Oregon Statute. I don't believe that billing and
12 collections fits the essential standard since billing and
13 collections is a service that any carrier can provide by
14 themselves and, in fact, many do. A lot of them do today.

15 So it's hard for me to understand how we can say
16 that it's an essential service when a lot of the carriers
17 are, in fact, doing their own billing and collections.

18 Q Well, let's talk about that a little bit more.
19 You're aware that Qwest has sought to have billing and
20 collections services exempted from regulation by this
21 Commission, hasn't it?

22 A I'm not specifically familiar with, you know,
23 Qwest's -- with that, no.

24 Q Are you aware that this Commission has found that
25 billing and collections was not sufficiently competitive to

1 justify it exempting from regulation?

2 A Certainly in 1989 when they made that decision,
3 that was their conclusion. The market has changed, as you
4 know, very significantly since 1989.

5 MS. HOPFENBECK: At this point I would ask the
6 Commission to take judicial notice of its decision entered
7 in UX 16 on October 29th, 1994, In the Matter of the
8 Petition of U.S. West Communications Inc. for Exemption
9 from Regulation of Billing and Collections Services.

10 ALJ CROWLEY: Do you have an order number?

11 MS. HOPFENBECK: The order number is 94-160.

12 ALJ CROWLEY: Thank you. I'll take official
13 notice.

14 MS. HOPFENBECK: Pardon me?

15 ALJ CROWLEY: I will.

16 MS. HOPFENBECK: Thanks. I would also ask the
17 Commission to take judicial notice of Order Number 00-003
18 entered on January 3rd, 2000. The case is UX 21, In the
19 Matter of the Petition of U.S. West Communications to
20 Exempt from Regulation U.S. West's DS3 Service.

21 ALJ CROWLEY: Thank you. I'll take official
22 notice.

23 MS. HOPFENBECK: May I approach the witness, Your
24 Honor?

25 ALJ CROWLEY: Please.

1 MS. HOPFENBECK: Your Honor, would you like to
2 mark these as exhibits for identification for purposes of
3 the record?

4 ALJ CROWLEY: Since I don't know what they are, I
5 don't know.

6 MS. HOPFENBECK: They're -- I'm handing him Order
7 00 --

8 ALJ CROWLEY: No. If I've taken official notice
9 of them, they're in the record.

10 Q BY MS. HOPFENBECK: Now, Mr. Brigham, I'd like to
11 turn -- to have you turn to page 4 of Order Number 00-003
12 and ask you, in the ordering paragraph, isn't it true that
13 in that order the Commission wrote, "In accordance with OAR
14 860-027-0052, after deregulation" -- and that is
15 deregulation of the DS3 high capacity services --
16 "U.S. West will, a) charge its existing tariffed billing
17 and collection rates to its unregulated DS3 operation for
18 any billing and collections services rendered."

19 Do you see that?

20 A Yes.

21 Q Now, to the extent that an interexchange carrier
22 does purchase billing and collections services from
23 U.S. West -- excuse me, from Qwest, that interexchange
24 carrier pays Qwest the tariffed rate for billing and
25 collections service; isn't that right?

1 A Well, my understanding in the switched access
2 environment --

3 Q Can I ask you, is that right? Can you answer
4 that yes or no?

5 A No, I can't.

6 Q Okay. Then you can answer.

7 A What I was about to say was that Qwest does have
8 a price list. It's not a tariff. It's a price list in
9 which we charge billing and collections services to CLECs.
10 And they have the option -- or the interexchange carriers.
11 They have the option to purchase those services from Qwest
12 or they have the option to provide those services
13 themselves.

14 Q So to the extent that an interexchange carrier
15 does purchase billing and collections from Qwest, they pay
16 the price -- the retail price, the price that is reflected
17 in the price list; is that right?

18 A I'm not sure if I would characterize it as a
19 retail price. They would pay the price that's in the price
20 list, yes.

21 Q It's a price that exceeds the DS3 cost that you
22 assert should be incorporated into Dr. Selwyn's imputation
23 analysis; isn't that right?

24 A Yes.

25 Q Now, turn to page 12, lines 17 through 21. You

1 discuss the impact of using your TSLRIC cost for billing
2 and collection as opposed to the price that Dr. Selwyn
3 included in his analysis. Do you see that?

4 A Yes.

5 Q Now, the impact is less than a penny; isn't that
6 fair? It's .8 cents; is that right?

7 A I'm not sure what you're -- eight cents being
8 what?

9 Q Actually -- excuse me. I'm sorry. That isn't
10 the right question. The margin in that the -- the
11 difference between the price floor when you change the
12 billing and collections from the price as Dr. Selwyn used
13 to cost, what you're left with is a price floor that's 5.2
14 cents; is that right?

15 A Just a moment.

16 Q It's line 19 of Qwest 230, page 12.

17 A Okay. Yeah. That would be correct.

18 Q And so the margin that would be available to the
19 interexchange carrier under that scenario if you're just
20 talking about Super Savings is .8 cents; isn't that right?

21 A Yes.

22 Q And that margin assumes that the interexchange
23 carrier could provision billing and collections services as
24 efficiently as Qwest could; is that fair?

25 A Yes, the assumption is that their costs would be

1 something like what Qwest's costs would be.

2 Q Okay.

3 A Although theirs may be cheaper since they do both
4 intra and interLATA.

5 Q Well, let's explore that. Isn't it true that
6 Qwest billing and collections costs are recovered from all
7 of the local exchanged services that Qwest provides in the
8 state of Oregon; isn't that true?

9 A Well, I think what we normally would do is we
10 would add the billing and collection costs for our toll
11 service. We would include that in the cost for toll, which
12 would be the price floor for toll service.

13 So when we're providing our own toll service, we
14 would include the billing and collection costs that --
15 within our costs. So as long as the costs, the price is
16 covering the cost, I think you could say that that toll is
17 covering its own billing and collection costs.

18 Q And when you determine what toll's own billing
19 and collection costs is, Qwest takes its cost of billing
20 and collection --

21 First of all, I'll say it's true that Qwest sends
22 out a single bill to its customers that covers that and
23 seeks to recover the rates that customers owe it for its
24 local exchange service and its intraLATA toll service and
25 its unregulated services; isn't that fair? Isn't that

1 right?

2 A Generally the bill contains the bill for a lot of
3 different services.

4 Q So Qwest has a cost associated with billing and
5 collection which it recovers from all of the services that
6 are reflected on that bill; is that right?

7 A Qwest develops separate billing and collection
8 costs for different services. So, for example, the cost of
9 the basic exchange service would include the basic costs of
10 sending out the bill. It would not -- that would not be
11 included in the toll billing collection costs.

12 Q Okay. The interexchange carriers certainly have
13 to recover the costs of sending out the bill from their
14 customers either in their inter -- or their intrastate
15 rates for toll; is that right?

16 A Certainly they would have to recover it however
17 they bill. If it was AT&T, they may put it in with the
18 local service bill or they could bill separately. It just
19 depends.

20 Q Okay. Let's move onto the last criticism that
21 you have, which on page 13 you're concerned that Dr. Selwyn
22 has utilized a discount factor derived from the retail
23 discount established in Arbitration 3-6.

24 First of all, looking at page 13, beginning on
25 line 13, you state, "The 22 percent greatly overstate

1 avoided retail cost."

2 Dr. Selwyn is not using 22 percent in his
3 imputation analysis, is he?

4 A Well, I think he's using the 22 percent, but
5 he -- again, he applies that and then he takes out the
6 billing and collection piece.

7 Q So that leaves him with an 11.6 percent factor
8 that he's using; is that right?

9 A That's what he says it is. Yeah, I think so.

10 Q Okay. Now, Qwest, on the other hand, in your
11 view, is that the appropriate way to build in retailing is
12 to use the marketing cost factors that were used in
13 developing the rates in UM 773 and UM 844; is that right?

14 A Right. In order to be consistent with all the
15 building block rates and costs that we've been dealing with
16 in this proceeding.

17 Q Now, in developing those marketing cost factors,
18 Qwest -- again, that's a situation where Qwest's marketing
19 costs for the whole company is allocated and recovered from
20 every service that Qwest provides; is that right?

21 A No. We develop separate marketing factors for
22 different product groups. For example, we have a separate
23 factor for toll that's different than the factor that we
24 use for interconnection, for example. And, in fact, the
25 toll factor is quite a bit higher because we do tend to

1 have more things -- more costs for the toll service.

2 So when I've applied the factors, the factor is
3 different for toll than it is, say, for interconnection.

4 Q And I see that the impact of changing the factor
5 from what Dr. Selwyn uses to the marketing cost factor that
6 you recommend in this proceeding is to reduce the price
7 floor to 5.72 cents; is that right?

8 A Yes.

9 Q It's less than a third of a cent below the six
10 cents Qwest proposes to charge for Super Savers?

11 A Yes. For just that one change, yes. Remember
12 that these are not cumulative changes. I separately
13 identified each change separately. So if you added the
14 cumulative effect of all these, obviously, the change would
15 be much more significant.

16 MS. HOPFENBECK: One moment, please.

17 ALJ CROWLEY: Sure.

18 MS. HOPFENBECK: I have nothing further for this
19 witness. Thanks.

20 ALJ CROWLEY: Thank you. Mr. Reichman?

21 MR. REICHMAN: I think he wants to cross.

22 ALJ CROWLEY: Do you want to follow up after all
23 the cross?

24 MR. REICHMAN: However you prefer.

25 ALJ CROWLEY: If you don't mind, let's hold until

1 the end.

2 MR. REICHMAN: Okay.

3 ALJ CROWLEY: All right. Mr. Trincherro?

4 MR. TRINCHERO: Thank you, Judge Crowley.

5 --ooOoo--

6 CROSS EXAMINATION

7 BY MR. TRINCHERO:

8 Q Good afternoon, Mr. Brigham.

9 A Good afternoon.

10 Q I really just have a couple of follow up
11 questions for you on a couple of the matters that counsel
12 for WorldCom discussed with you.

13 Ms. Hopfenbeck asked you certain questions
14 regarding Qwest's use of dedicated services to provide the
15 equivalent of interexchange services in Oregon. And I
16 believe you responded that if it's a Qwest toll service, it
17 would go through the switch.

18 Is that an accurate paraphrase of your response?

19 A I believe I said that if it's a toll -- if we're
20 providing toll service, then it would be switched, yes.

21 Q Now, can a Qwest customer obtain from Qwest the
22 ability to move traffic over dedicated facilities that
23 actually goes intraLATA but interexchange?

24 A Certainly customers can purchase high band lift
25 services, dedicated facilities from Qwest.

1 Q So they could get the equivalent then of a toll
2 type service, that is an interexchange using dedicated
3 facilities?

4 A Yeah. You may be better off to ask Mr. Teitzel
5 the specific arrangements that Qwest would have. I really
6 don't have it -- a good enough knowledge I think of all the
7 product offerings to know exactly how, you know, the
8 customers would order if they wanted toll service plus if
9 they wanted dedicated facilities, DS3s, whatever. I think
10 Mr. Teitzel would be better to answer that.

11 Q Very good. Thank you.

12 Ms. Hopfenbeck also asked you about your critique
13 of Dr. Selwyn's use of accessed costs related to
14 originating and terminating traffic in independent
15 territory; is that correct?

16 A Yes.

17 Q And you stated that, based on your general
18 knowledge, having looked at some other tests in other
19 states, that you would expect about a 20 percent reduction
20 in those revenues as far as an imputation test; is that
21 correct?

22 A Yeah. Yeah. At least 20 percent.

23 Q You didn't actually do a study for this case on
24 that, did you?

25 A No.

1 Q You didn't look at any Oregon data?

2 A We didn't file an imputation study in this case.

3 Q Thank you. Ms. Hopfenbeck also asked you a
4 number of questions about an imputation test where billing
5 and collection costs would be used instead of billing and
6 collection rates or prices. And I believe that you
7 indicated that that would leave a .8 cent margin; is that
8 correct?

9 This relates to your testimony on page 12 of your
10 rebuttal.

11 A I think what she was saying is that if the rate
12 was 6 cents and the price floor is reduced to .052, I guess
13 that is .8 cents difference.

14 Q And in a line of cross following that, you
15 indicated that it's your assumption that billing and
16 collection costs for interexchange carriers other than
17 Qwest would be on par about the same as that that Qwest
18 incurs?

19 A Yes, I think they probably would be. Because if
20 you figure that the interexchange carriers is probably also
21 billing intraLATA toll and other services, they're probably
22 sending out a bill anyway.

23 So if you look at those, the cost of sending out
24 the bill, yes, it's true that when Qwest sends out a bill,
25 we would get the recovery of the cost of the postage and

1 everything through the basic exchange billing and
2 collection. Just like I would assume the interexchange
3 carrier would look at the fact that they're providing
4 intraLATA services and whatever other services they are, to
5 recover that, too.

6 I would think that their costs would be very
7 similar to ours and may even be cheaper because of the
8 volume of messages that they're processing.

9 Q Have you performed any study to determine IXC
10 costs for billing?

11 A No, I haven't.

12 MR. TRINCHERO: Thank you. If I might have a
13 moment, Your Honor?

14 ALJ CROWLEY: Please.

15 MR. TRINCHERO: Thank you. Your Honor, I have
16 nothing further for this witness. Thank you, Mr. Brigham.

17 THE WITNESS: Thank you.

18 ALJ CROWLEY: Mr. Manifold?

19 MR. MANIFOLD: No questions, Your Honor.

20 ALJ CROWLEY: Thank you. Mr. Weirich?

21 MR. WEIRICH: Just a couple. Thank you.

22 --ooOoo--

23 CROSS EXAMINATION

24 BY MR. WEIRICH:

25 Q Mr. Brigham, going to page 12 of Exhibit 230

1 and into line 17 and 21 that you were asked about earlier.
2 As I understand your testimony -- I'm just trying to
3 clarify what you're saying.

4 The figure .002082 you're saying comes out of a
5 cost study that was submitted in Docket UM 773?

6 A Yes.

7 Q Okay. As far as you know, was that -- was that
8 cent amount of .002082 adopted in a PUC order?

9 A I don't believe that they actually submitted -- I
10 don't think there was ever a rate established for that form
11 of billing and collection.

12 Q Okay. My understanding is that most of the
13 orders say "see tariff rate". Is that your understanding
14 as well?

15 A Certainly in terms of billing and collection for
16 carriers, there it says "see existing tariffs", yes.

17 Q Okay. That's what I thought it meant. I wasn't
18 sure. Thank you.

19 Going to page 14 of Exhibit 230. On lines 13 to
20 15, you talk about results in a marketing cost of .0003 per
21 minute. And I'm looking -- I'd like to compare that -- do
22 you have your Qwest 219 handy?

23 A Yes.

24 Q On page 82 of Qwest 219.

25 A Yes.

1 Q About halfway down the page under "service
2 specific costs" you have billing for toll. Do you see
3 that?

4 A Yes.

5 Q There's a figure there of .000034. Is that the
6 figure you meant to insert in line 14 of your testimony?

7 A No. Actually, it's actually .0003. And the
8 reason for that is because we used the actual toll factor
9 in my calculation.

10 Q So I guess we're a little confused then. Should
11 Qwest 219, page 82 be corrected to reflect the .003 --
12 .0003, or you're saying the two exhibits are correct as
13 they stand?

14 A Hold on just a second. Let me just verify it.
15 Okay. I see what the difference is here. Essentially what
16 we did when we did the factors on the sheet -- and,
17 actually, I think if you really wanted to do this
18 correctly, the number that you have in there with the four
19 zeros and the 34 is really the right number because what we
20 did is we took the interconnection product management
21 factor or the marketing factor that was already in the
22 number and we subtracted that out, and that's where we
23 got -- and then we applied the toll factor. And that's
24 where you get the .000034.

25 I took a bit more of a conservative view when I

1 did the other calculation and I simply took the total toll
2 cost and applied just the marketing factor for toll without
3 subtracting out the interconnection factor. I suppose it's
4 technically correct really to subtract out that
5 interconnection factor because it's already included in the
6 costs.

7 So I would think that the .000034 is probably the
8 more correct number. The other number is a conservative
9 assumption.

10 Q The .000034 would be the more correct number for
11 line 14 on Exhibit 230; is that correct?

12 A Yes, I think so. Again, I tried -- when I did
13 that, I think I was trying to be very conservative. So I
14 just applied the factor without taking out the
15 interconnection.

16 MR. WEIRICH: Thank you. That's all the
17 questions I have. Thank you.

18 ALJ CROWLEY: Mr. Reichman?

19 MR. REICHMAN: Thank you.

20 --ooOoo--

21 REDIRECT EXAMINATION

22 BY MR. REICHMAN:

23 Q Just to pick up on that very last point, Mr.
24 Brigham. If you corrected your testimony to include that
25 figure that Mr. Weirich was referencing you to from Exhibit

1 219, would that result in the imputed price floor being
2 lower or higher than what is stated in your testimony?

3 A It would result in it being lower.

4 Q Ms. Hopfenbeck was taking you through the three
5 points in Dr. Selwyn's imputation analysis where you
6 disagreed with him. And is it your testimony that if you
7 corrected any of those three points, that would result in
8 the price floor being lower than the 6 cent price?

9 A Yes.

10 Q Do you know what would be the result if you
11 corrected all of these three points?

12 A I don't know the exact amount, but, obviously, it
13 would be significant.

14 Q Mr. Brigham, do you have Exhibit WorldCom 2 in
15 front of you?

16 A Is that this -- is that the order UX?

17 Q No.

18 A Is that Dr. Selwyn's?

19 Q It's Dr. Selwyn's Colorado testimony.

20 A Okay.

21 Q Let me ask you first if you would turn to your
22 Exhibit 230, your rebuttal testimony, page 8. And just
23 footnote 4.

24 A Yes.

25 Q In the first sentence of footnote 4 you quote a

1 sentence from Dr. Selwyn's testimony in Colorado?

2 A Yes.

3 Q The sentence starts with the words, "For
4 determining whether U.S. West". Do you see that?

5 A Yes.

6 Q Would you turn now to page 5 of Exhibit WorldCom
7 2 and look at lines 11 to 14. Is that the same sentence
8 that you referenced in the first part of footnote 4?

9 A Yes. I think the -- I was -- when I got that
10 quote, I was looking at a -- the proprietary version of his
11 testimony that I had. And evidently the pagination is
12 different than the exhibit that I was handed here. I'm not
13 sure which is the actual official copy. This is a
14 non-proprietary copy and I was working from a proprietary
15 copy.

16 Q I see.

17 A At any rate, yes, the quote that I quoted as
18 being on page 7 actually appears to be on page 5 of this
19 exhibit.

20 Q Thank you. And then just so the record is clear,
21 later on in that same footnote you quote from page 12 of
22 Dr. Selwyn's testimony. And I'd ask you to look at page 10
23 and see if that particular quoted sentence is actually on
24 page 10, lines 14 to 18.

25 A Yes, it appears to be on lines 14 and 15 of page

1 10.

2 Q Okay. Thank you. Ms. Hopfenbeck asked you if
3 your opinion was that switched access was an essential
4 element of purchasing toll service, or was essential to
5 providing toll service I should say. And you said that
6 that was your opinion.

7 It is true, however, that your testimony analyzes
8 the price floor for toll service by using the price of
9 switched access, not only the cost; is that correct?

10 A That's correct. I basically, while my opinion is
11 that it's essential, certainly I said that that wasn't
12 really the issue here. Even if you did assume it was
13 essential and imputed it, if you did the imputation
14 properly, the service would pass the imputation floor.

15 Q Even using switched access rates?

16 A Even using switched access rates.

17 Q I believe you also testified that an
18 interexchange carrier must set its intrastate toll rates
19 above the access charges that it pays. Now, is there
20 anything that requires in law that an interexchange carrier
21 set toll rates above access charges?

22 A No. And, in fact, it's been my experience that
23 in some cases there are -- for example, an interexchange
24 carrier will price certain toll plans actually below an
25 imputation price floor that includes switched access

1 rates. And that's what leads me to believe that in many
2 cases they're looking at the average revenue per minute as
3 the -- as the test. Because if they're pricing some rates
4 below that floor, the imputation floor, then they must be
5 pricing other ones above it.

6 In aggregate, assuming that they're not
7 predatorily pricing, then they're going to be -- they're
8 going to be pricing -- our average revenue per minute is
9 going to be above the imputation floor. Now, that also
10 assumes that they're buying switched access, which in many
11 cases they may not be.

12 Q Well, let me follow up on that. There are a
13 variety of ways that an interexchange carrier can access an
14 end using customer, correct?

15 A Yes.

16 Q They could use switched access. They could also
17 use special access or dedicated facilities, correct?

18 A Yes.

19 Q And the cost for those are different?

20 A That's correct. And they could be using all --
21 you know, other providers, too. Other ways of accessing
22 the customers besides Qwest's facilities. Or building them
23 themselves.

24 Q In cases where an interexchange carrier uses
25 dedicated or special access, do those tend to be the higher

1 volume toll callers?

2 A Yes.

3 Q If an interexchange carrier were evaluating its
4 cost for purposes of setting its prices, could it consider
5 all of these various ways that it gets access to the
6 customer switched access, special access, and average those
7 as well?

8 A Absolutely.

9 MS. HOPFENBECK: I'm going to object to this as
10 being beyond the scope of --

11 THE WITNESS: Absolutely.

12 MS. HOPFENBECK: -- the direct examination or the
13 cross examination. And, therefore, not appropriate
14 redirect.

15 ALJ CROWLEY: I believe it's within the scope of
16 what we've been talking about and I believe it's helpful to
17 me. Yes, go ahead.

18 THE WITNESS: I'm sorry. Could you repeat the
19 question?

20 Q BY MR. REICHMAN: Sure. If an interexchange
21 carrier were pricing its services and considering its
22 costs, could it consider an average, if you will, of the
23 ways it obtains access to the end user customer?

24 A Absolutely.

25 Q So it would not simply need to consider the

1 switched access charge as if it paid that for every toll
2 call?

3 A That's absolutely true, yes. They could consider
4 all the means of access, the cost of all the different
5 means of access that they have, including
6 self-provisioning, dedicated facilities, purchasing from
7 another provider, as well as purchasing Qwest's switched
8 access.

9 MR. REICHMAN: Thank you. Nothing further.

10 ALJ CROWLEY: Any follow up?

11 MS. HOPFENBECK: Just one area on the last line
12 of questioning from your counsel, Mr. Reichman.

13 --ooOoo--

14 RECROSS EXAMINATION

15 BY MS. HOPFENBECK:

16 Q Mr. Reichman was asking you your view of how an
17 interexchange carrier would have to take into consideration
18 the costs of other means -- of means of access other than
19 switched access. Do you recall that questioning?

20 A Yes.

21 Q Would you agree, Mr. Brigham, that there is a
22 cost associated with provisioning access services by means
23 other than the switched access; isn't that right?

24 A Certainly there are -- there's a cost to however
25 an exchange carrier decides to reach the end user. If

1 they're providing it themselves, it's the cost of their own
2 facilities. If they're buying dedicated facilities from
3 us, it's the cost of our special access. If they're
4 purchasing it from some other provider, some CLEC, for
5 example, then it's whatever they're paying that CLEC for
6 access.

7 MS. HOPFENBECK: Thank you. Nothing further.

8 ALJ CROWLEY: Anything further for this witness?

9 MR. REICHMAN: One brief follow up.

10 ALJ CROWLEY: Yes.

11 --ooOoo--

12 REDIRECT EXAMINATION

13 BY MR. REICHMAN:

14 Q Mr. Brigham, in cases where interexchange
15 carriers use special access to access customers, are you
16 aware if they would on occasion have the end user customer
17 pay that -- the cost of that special access service?

18 A They certainly could.

19 MR. REICHMAN: Nothing further.

20 ALJ CROWLEY: Thank you. Anything further?

21 Thank you very much, Mr. Brigham. You're excused.

22 THE WITNESS: Thank you.

23 MR. REICHMAN: Your Honor, to be clear, can Mr.
24 Brigham be excused from the hearing?

25 ALJ CROWLEY: You're excused from the hearing,

1 Mr. Brigham.

2 MR. REICHMAN: Thank you very much.

3 ALJ CROWLEY: Would you like to break for five
4 minutes and change paper and so on?

5 COURT REPORTER: Sure.

6 ALJ CROWLEY: We'll go back on the record in
7 about five minutes.

8 (Recess taken)

9 ALJ CROWLEY: Qwest, if you could call your next
10 witness, please.

11 MR. REICHMAN: Thank you. Qwest calls David
12 Teitzel.

13 ALJ CROWLEY: Mr. Teitzel, will you stand and
14 raise your right hand.

15 (Witness sworn by the Administrative Law Judge)

16 ALJ CROWLEY: Thank you. Please be seated.
17 State and spell your name for the record.

18 THE WITNESS: My name is David L. Teitzel. My
19 last name is spelled T-e-i-t-z-e-l.

20 ALJ CROWLEY: Thank you. Mr. Reichman?

21 MR. REICHMAN: Thank you.

22 --ooOoo--

23 DAVID L. TEITZEL,

24 Thereupon called as a witness on behalf of Qwest, first
25 duly sworn, was examined and did testify as follows:

1

2

DIRECT EXAMINATION

3 BY MR. REICHMAN:

4 Q Mr. Teitzel, do you have in front of you prefiled
5 direct testimony Exhibit Qwest 201?

6 A Yes, I do.

7 Q And attached to that are Exhibits Qwest 202
8 through 208?

9 A That is correct.

10 Q And you also have in front of you your rebuttal
11 testimony, Exhibit Qwest 222?

12 A Yes, I do.

13 Q And attached to that are Exhibits Qwest 223
14 through 228?

15 A That's correct.

16 Q Thank you.

17 ALJ CROWLEY: Excuse me. Through -- would you
18 give me the numbers again, Mr. Reichman. 223 through?

19 MR. REICHMAN: 225.

20 ALJ CROWLEY: 225?

21 MR. REICHMAN: Did I say 228?

22 ALJ CROWLEY: That's what I heard.

23 MR. REICHMAN: I apologize. I was thinking
24 ahead.

25 Q BY MR. REICHMAN: Mr. Teitzel, are there any

1 corrections that you wish to make to your testimony or
2 exhibits?

3 A I have no corrections to my testimony. However,
4 I do have one correction to my exhibit.

5 Q And which exhibit is that?

6 A This would be Qwest 208.

7 MR. REICHMAN: Your Honor, Mr. Teitzel -- excuse
8 me. Your Honor, Mr. Teitzel would like to correct Exhibit
9 208. Before, since it hasn't technically been admitted
10 yet, would you prefer me to hand out a substitute corrected
11 version or would it be easier if we marked this as a
12 different exhibit number?

13 ALJ CROWLEY: I would prefer the correct version
14 so that we just have one exhibit to deal with.

15 MR. REICHMAN: Okay. Let me hand the witness one
16 and hand out the exhibit.

17 MR. TRINCHERO: I'm sorry, Larry. This is 208?

18 MR. REICHMAN: 208.

19 MR. TRINCHERO: Okay.

20 MR. REICHMAN: I believe it was two pages in the
21 version that we filed. We managed to get it all in one
22 page. And I will note that this is a confidential
23 exhibit. I'm going to ask Mr. Teitzel to explain the
24 changes. However, I don't -- well, I think just to be
25 safe, we should make sure that everyone in the room has

1 signed the protective order.

2 ALJ CROWLEY: Anyone who has not signed the
3 protective order please leave the room. We'll signal when
4 we're done. All right. It looks like we're okay.

5 MR. REICHMAN: Thank you.

6 Q BY MR. REICHMAN: Mr. Teitzel, would you please
7 explain the correction that you made to Exhibit 208?

8 A Certainly. Just to clarify and to explain the
9 correction, the driver of the correction, not necessarily
10 the number; is that correct?

11 Q Pardon me?

12 A Not necessarily the precise number?

13 Q You can say whatever you want.

14 A I can?

15 MR. MANIFOLD: What about the transcript? Do you
16 want the confidential number on the transcript.

17 MR. TRINCHERO: We could seal that part of the
18 transcript.

19 ALJ CROWLEY: We'll just have to let the court
20 reporter know when something needs to be sealed.

21 THE WITNESS: It is a confidential number.

22 Q BY MR. REICHMAN: When you say -- when you say
23 confidential information, perhaps you could just identify
24 it by saying what I'm about to say is confidential.

25 A Okay. So, yes, on my original exhibits, at Qwest

1 208 at page 2, we had calculated -- this is a confidential
2 number. A current average rate per minute for all toll
3 services of XXXXX. The correct number should be XXXXXX, as
4 you see in my updated Exhibit 208.

5 ALJ CROWLEY: And the correct number is also a
6 confidential number?

7 THE WITNESS: It is confidential. And the reason
8 for that change was that when this number was calculated,
9 Qwest included the independent revenue in the calculation.
10 But we do not track or retain the independent minutes. So
11 the revenues were included, whereas the minutes were not,
12 which artificially inflated that number.

13 And I apologize to the -- to Your Honor and the
14 parties, but that was strictly an inadvertent mistake on
15 our part.

16 That same problem then flowed through to the
17 proposed ARPM, whereas in the original Qwest 208, we had
18 shown -- this is confidential XXXXXX.

19 And the correct ARPM should be shown as a
20 confidential XXXXX. And these changes do not impact the
21 revenues on this page. They do not impact the revenue
22 effect of our calculations. These numbers are strictly
23 informational numbers.

24 Q Thank you. Mr. Teitzel, do you have any other
25 corrections you wish to make to your testimony?

1 A No, I do not.

2 MR. REICHMAN: Thank you. At this time, Your
3 Honor, we would move the admission of the Exhibits Qwest
4 201, 202, 203, 204, 205, 206, 207, 208, 222, 223, 224, and
5 225.

6 ALJ CROWLEY: No one filed objections to those
7 exhibits, they are admitted.

8 MR. REICHMAN: Thank you. At this point, Mr.
9 Teitzel is available for cross examination.

10 ALJ CROWLEY: Thank you.

11 MS. HOPFENBECK: Could we have -- could we have
12 one minute to discuss the correction that Mr. Teitzel has
13 proposed with our --

14 ALJ CROWLEY: Sure. Do you want a long minute
15 like you want to go off the record?

16 MR. TRINCHERO: A long minute.

17 MS. HOPFENBECK: That would be helpful to do
18 that.

19 ALJ CROWLEY: We'll take a few.

20 MS. HOPFENBECK: We just want to make sure we
21 understand it and it doesn't impact.

22 ALJ CROWLEY: All right. Off the record.

23 (Off the record discussion held)

24 ALJ CROWLEY: All right. Let's go back on the
25 record. Ms. Hopfenbeck?

1 MS. HOPFENBECK: First of all, Mr. Trincherro
2 would like to briefly respond to the changes that Mr.
3 Teitzel has just made to Exhibit 208.

4 MR. REICHMAN: Can I ask what you mean by
5 "respond to it"?

6 MR. TRINCHERO: No. I'm just going to briefly
7 address the ALJ on a request for a particular indulgence
8 tomorrow when our expert on price squeeze is here.

9 MR. REICHMAN: Okay.

10 MR. TRINCHERO: Your Honor, thank you for your
11 indulgence. We wanted to check to see whether or not these
12 revisions would impact the cross examination that we had
13 prepared for Mr. Teitzel today. I think we've determined
14 that it does not unduly do so, so we can proceed.

15 However, it does impact some of the testimony
16 prefiled testimony of Dr. Selwyn in this case because he
17 had used the previously stated ARPM from Qwest 208. With
18 these revisions, that will actually impact some of his
19 testimony.

20 And we would just -- we're going to check with
21 Dr. Selwyn tonight to see whether or not he would need to
22 make any changes to his testimony. Hopefully all of that
23 can be done prior to his scheduled hearing time here. But
24 in case it isn't, we would like to reserve the opportunity
25 to make some special accommodation on this.

1 ALJ CROWLEY: Fine.

2 MR. TRINCHERO: That's all. Thank you.

3 ALJ CROWLEY: Thank you.

4 --ooOoo--

5 CROSS EXAMINATION

6 BY MS. HOPFENBECK:

7 Q Good afternoon, Mr. Teitzel.

8 A Good afternoon.

9 Q Initially I'd like you to turn to page 4 of
10 Exhibit 201, your direct testimony.

11 A I have that.

12 Q There beginning at line 19 you state that a
13 variety of factors were considered by Qwest in establishing
14 its pricing proposals. Do you see that?

15 A Yes, I do.

16 Q And among those factors was the need to align
17 prices for services more closely with their direct costs.
18 Do you see that?

19 A I do.

20 Q Now, the rates for switched access services that
21 Qwest is proposing in this case still contain a significant
22 margin and contribution above costs; isn't that right?

23 A I am not the switched access witness, but I do
24 believe that they're priced above their direct cost, yes.

25 Q Are you aware that the cost for unbundled network

1 elements or building blocks, as this Commission has
2 referred to them, that were established in UM 844 -- I
3 shouldn't say the costs. The prices that were established
4 in UM 844 also include a markup to cover contribution to
5 joint and common costs the company incurs?

6 A I believe that's correct.

7 Q Are you familiar with what that percentage markup
8 is?

9 A As I recall, it's 22 percent.

10 Q Then the markup -- Mr. Teitzel, just to -- would
11 you accept subject to check that the markup that the
12 Commission adopted in UM 844 --

13 MR. REICHMAN: Excuse me. I think that's a
14 confidential number, what you're about to say.

15 MS. HOPFENBECK: Okay.

16 MR. REICHMAN: Thank you.

17 Q BY MS. HOPFENBECK: Was a number that exceeded
18 the 22 percent that you just mentioned.

19 MS. HOPFENBECK: And I guess what I would do is
20 at this point ask the Commission to take administrative
21 notice of its decision in UM 844 that established the
22 markup. And I don't have the order number, but I would be
23 able to provide that to you tomorrow, Your Honor.

24 ALJ CROWLEY: If you would do that, I would
25 appreciate it.

1 Q BY MS. HOPFENBECK: In any event, Mr. Teitzel,
2 you would agree that the rates that Qwest is proposing for
3 switched access services exceed the equivalent prices for
4 the building blocks that make up the switched access
5 service; isn't that right?

6 A I would accept that subject to check with the
7 caveat that Mr. McIntyre is the switched access witness and
8 that question is better directed to him.

9 Q Okay. I'd like to talk to you a little bit about
10 Qwest toll plans. It's my understanding that Qwest is
11 attempting in this filing to streamline its toll offerings?

12 A That is correct.

13 Q They're reducing the number of plans?

14 A That's also correct.

15 Q And they are reducing the rates from -- for some
16 of its more basic toll plans; is that right?

17 A That is correct.

18 Q And they're introducing a plan called Super Saver
19 in this proceeding that includes a six cent rate per minute
20 for business customers available 24 hours a day, seven days
21 a week; is that right?

22 A I don't believe that is correct. It's a plan
23 that exists. It's being repriced. But that's not --

24 Q Okay. So your -- the distinction you want to
25 make is it's just that we're -- Qwest is proposing to

1 reprice Super Savers; is that right?

2 A My point was that the Super Savings plan that
3 exists is being repriced at this time.

4 Q Okay. And the way it's being repriced by Qwest
5 in this proceeding is to reduce that rate for business
6 customers to six cents per minute 24 hours a day, seven
7 days a week; is that right?

8 A That is correct.

9 Q There will be no monthly fee associated with that
10 plan; is that right?

11 A That's also correct.

12 Q And there is no minimum amount of usage that
13 that's required under that plan; is that right?

14 A That is correct.

15 Q And it's also true that Super Saver is available
16 to all and any business customer of Qwest; is that fair?

17 A It's a plan that is available to business
18 customers. It's a plan that Qwest uses as a targeted
19 marketing tool. It's not widely advertised, not generally
20 advertised as some of our other plans. It's more of a
21 retention calling plan.

22 Q And I was going to ask you about that statement
23 in your rebuttal testimony that I believe appears at page
24 8, lines 11 through 13 where you describe Super Savers as
25 an important marketing tool.

1 A I'm sorry. You said page 8?

2 Q Yes. When you made that statement, essentially
3 what Qwest intends to do with this plan is to pitch it to
4 those customers who have expressed an interest in switching
5 to a competitive provider for their intraLATA toll service;
6 is that fair?

7 A I'm not sure I said that necessarily.

8 Q I was asking whether that's what you meant when
9 you referred to that as an important marketing tool.

10 A It's a plan, as I said earlier, it's a targeted
11 marketing tool. Qwest does segment its customer base. It
12 identifies customers by, if you will, value segment. And
13 this is a plan that would be targeted to certain customers
14 that Qwest views as an extremely important customer by way
15 of absolute level of billing with Qwest or another measure
16 of value.

17 Q Would you agree that it's likely that the
18 competitive interexchange carriers or Qwest competitors
19 likely view the same customers as important customers?

20 A And I would agree. And I would just add this
21 caveat. I use the word "important". And that probably is
22 a word that carries an improper connotation. I think all
23 the customers are important. Customers tend to have
24 different levels of billing. And, obviously, Qwest is
25 incented, as are other carriers, to target the higher

1 revenue customers, if you will.

2 Q And when you referenced earlier that Qwest used
3 Super Savings as a retention tool, what you meant by that
4 is that they view this as a plan that can be pitched to
5 customers who might otherwise go to an alternative
6 provider; is that fair?

7 A I think that's reasonable.

8 Q And would you agree that alternative providers
9 that seek to retain these high billing, high volume user
10 customers, if you will, will likely have to make some kind
11 of competitive response to Qwest's Super Saver plan in
12 order to attract those customers from Qwest? Would you
13 agree?

14 A I would suggest that -- I would add this
15 preface. Long distance service is a very competitive
16 market. There are many carriers in this particular
17 market. In that vein, many carriers offer different
18 incentives to both attract and retain customers, whether
19 they be airline miles, discount rates on credit cards. In
20 some cases customers are offered a financial incentive to
21 switch; \$50 to a hundred dollars. I would expect those
22 kind of responses to be offered in response to our business
23 Super Savings plan.

24 Q Do you agree that the large volume toll user that
25 I think we've discussed as being the type of user that will

1 be targeted with this type of plan is likely to respond
2 principally to changes in price as opposed to some of the
3 other sort of airline miles kinds of plans? These are
4 business users now.

5 A It's difficult to say. Customers respond
6 differently to incentives. I believe I testified that we
7 see many conflicting pressures in the marketplace that
8 drive customer demand.

9 Q Okay.

10 A Price is one of those factors. There are other
11 countervailing factors that can drive the demand in the
12 other direction.

13 Q Okay.

14 A I would admit that price is one of those
15 factors.

16 Q Okay. Now, if you'll -- we had a lot of
17 discussion, Mr. Brigham and I had a lot of discussion about
18 the average revenue per minute that interexchange carriers
19 receive from all of their toll plans.

20 I'd like to ask you this hypothetical. First of
21 all, I'd ask you to assume for me that -- let's stop there.

22 First of all, are you aware of whether there
23 are -- there's any other interexchange carrier at present
24 offering to provide intraLATA toll service at a rate as low
25 as six cents a minute with no monthly fee or minimum to

1 business customers 24 by 7?

2 A Are you saying intraLATA toll providers and that
3 is a broad definition of intraLATA toll? My answer would
4 be yes. For example --

5 Q What do you have in mind there when you answer
6 that question?

7 A One name that comes to mind immediately is Net to
8 Phone. It's an internet telephony provider. I believe
9 their price is 4 cents a minute.

10 Q Now, Net to Phone is a company that provides
11 service using internet protocol as opposed to the public
12 switched network; is that correct?

13 A That's correct.

14 Q And the quality of service today for internet
15 telephony does not match the quality of service over the
16 public switched network; would you agree?

17 A Not entirely. And I would add to that that I
18 myself subscribe to Net to Phone at home. And I find the
19 quality to be, if not precisely the same, extremely close
20 to being the same as Qwest's own quality. Very close.

21 Q You would agree that the market or the customers
22 that can avail -- there's a more limited group of customers
23 that can avail themselves of toll services over the
24 internet than can avail themselves of toll services using a
25 public switched network; is that fair?

1 A I'd like to respond directly, but I need to
2 respond by saying I think it varies whether you're talking
3 about business customers or residential customers. I think
4 for business customers, I think most businesses are hooked
5 up to the internet, if you will, have access to the
6 internet.

7 I believe I saw an Oregon study out of the state
8 of Oregon that says well over 50 percent of the Oregon
9 consumers are now hooked up to the internet, if you will.
10 So it's a fairly sizeable percentage.

11 Q With the exception of Net to Phone, are you aware
12 of any other -- first of all, does Net to Phone have no
13 monthly fee or minimum, you're sure of that?

14 A I'm not billed a monthly fee.

15 Q Okay.

16 A And there's not a minimum.

17 Q Is there any requirement that you subscribe to an
18 internet service provider to avail yourself of Net to
19 Phone?

20 A Well, I'm a Microsoft network subscriber. And I
21 saw the Net to Phone banner add on that website.

22 Q Okay.

23 A Now, I'm not certain whether Net to Phone allies
24 itself with other providers. I do know that Microsoft is a
25 part owner, as is AT&T.

1 Q And you pay a monthly fee for that internet
2 access?

3 A Yes, I do.

4 Q Other than Net to Phone, are you aware of any
5 other providers that offer a rate as attractive, a plan as
6 attractive, as the plan that Qwest is providing through
7 Super Savers; namely six cents a minute 24 by 7 with no
8 monthly fee or minimum?

9 A One doesn't come immediately to mind. I am aware
10 that there have been plans in the past that approached that
11 price. There was a plan called the Green Cents plan which
12 I believe was an AT&T or MCI, I can't recall which, that
13 was the same price.

14 Q With no monthly fee or minimum? Are you sure
15 about that?

16 A I believe there's a monthly fee charge on the
17 interstate tariff. There was no intrastate fee tariff
18 charge for that.

19 Q But the condition was that customer subscribe to
20 both the company's interstate and intrastate calling plans;
21 is that right?

22 A That is correct.

23 Q Now, would you agree that this hypothetical
24 that -- first of all, I think we've talked about you expect
25 a competitive response of some kind on the part of

1 competitive providers when Qwest introduces a plan such as
2 Super Savers; is that right?

3 A I think I said it could be a bundling response.
4 It could be a price response. It could come in a variety
5 of forms.

6 Q Assuming for the purposes of this hypothetical
7 that it is a price response, do you agree that any
8 interexchange carrier that reduces the rate per minute it
9 charges or that moves to a plan that is a reduced per
10 minute 24 by 7 and no monthly fee or minimum, moving to
11 that kind of a plan will have the effect of reducing the
12 average revenue per minute that that carrier receives
13 across all its toll plans?

14 A I would agree that any carrier, including Qwest,
15 if it reduces price, reduces the average revenue per
16 minute. Was that your question?

17 Q Yes. And then as more and more customers migrate
18 to those lower cost plans, the average revenue per minute
19 will continue to decrease; isn't that right?

20 A I think that's correct. We've seen that over
21 time.

22 Q Now, even though Super Savings Plan is a plan
23 that Qwest is not going to broadly advertise, that plan
24 will be available to anyone. I think you've already agreed
25 to that. Is that right?

1 A It's a business plan.

2 Q And it will be published in Qwest's tariffs that
3 are available on the web on the internet; is that right?

4 A I believe long distance service is a price listed
5 service, but it will be published in that form.

6 Q Yeah, in that form. And this is a plan that --
7 and I think you suggested earlier that business customers
8 tend to have access to the internet; is that right?

9 A That is correct.

10 Q And so any customer who wants to investigate its
11 possibilities with Qwest would be wise to check Qwest's
12 price lists that are available on the web; is that right?

13 A I believe to the extent customers take the time
14 to investigate that, they certainly could access that
15 information.

16 Q And to the extent that a customer requests this
17 plan, Qwest will provide service pursuant to Super Savers;
18 is that right?

19 A Yes. Correct.

20 Q Okay. I want to talk to you a little bit about
21 your discussion about demand elasticity. And, in fact,
22 what I want to talk to you is a little about Verizon's
23 response to a data request that Qwest sent out.

24 And that discussion is on page 12 of Exhibit 222, your
25 rebuttal testimony.

1 A I have that page.

2 Q Now, the Verizon response is reflected at lines 4
3 through 10, but you highlighted or bolded only the last
4 sentence which says, "Under these circumstances" -- and the
5 circumstances being referenced are the fact that Verizon
6 has not initiated price changes in Oregon other than that
7 which occurred as a result of Docket UT 141 and Verizon's
8 toll revenues have declined as a direct result of increased
9 competition.

10 Under those circumstances, Verizon said, "There's
11 simply no way to gauge the effect, if any, of the
12 stimulation factor imposed by the Oregon Commission."

13 Do you see that?

14 A I do.

15 Q Now, this response does not say there was no
16 stimulating -- demand stimulation effect as a consequence
17 of the decision in UT 141, does it?

18 A It does not say that.

19 Q It simply says that it was not discernible; is
20 that right?

21 A I believe Verizon is saying, in effect, the same
22 thing Qwest is saying in this docket in that stimulation is
23 an economic fact. But there are countervailing forces that
24 can offset and mask that fact so you can't actually see it
25 and track it in the marketplace. And I believe they

1 address that in the response.

2 Q But Verizon, like Qwest, agrees that when you
3 reduce price for a service such as toll service, there will
4 be a stimulation effect. The question is how do you
5 determine what that is, given the other forces that are
6 affecting demand; is that right?

7 A It's extraordinarily difficult. And I would also
8 suggest that stimulation factors tend to change as you move
9 along the price plan continuum. I believe Dr. Banerjee
10 talks about that also later.

11 Q It is Dr. Banerjee who's Qwest principal witness
12 addressing price elasticity and in response to Dr. Selwyn;
13 is that right?

14 A He is a doctor in economics and he will address
15 this in detail.

16 Q Okay. I'd like to talk with you about the
17 hypothetical examples that you discuss beginning at page 15
18 of your rebuttal testimony. For purposes of that, I've
19 prepared an exhibit that I think illustrates the examples
20 that you discuss.

21 MS. HOPFENBECK: May I approach the witness, Your
22 Honor?

23 ALJ CROWLEY: Yes.

24 MS. HOPFENBECK: I believe this exhibit will be
25 marked for identification as WorldCom Exhibit 3.

1 ALJ CROWLEY: Do you have an exhibit for me?

2 MS. HOPFENBECK: Oh, I'm sorry, Your Honor. Your
3 Honor, I'll have to give you a better copy because I've
4 written on mine. But the exhibit we're using does not have
5 that statement on it.

6 ALJ CROWLEY: Okay.

7 MS. HOPFENBECK: And I'll give you a corrected
8 one tomorrow morning.

9 ALJ CROWLEY: All right.

10 MS. HOPFENBECK: Just to let you know.

11 ALJ CROWLEY: For the moment I'll mark this as
12 WorldCom 3.

13 MR. REICHMAN: Trade.

14 MS. HOPFENBECK: Do you want to trade?

15 MR. REICHMAN: I could trade. I just wrote
16 "WorldCom 3" on there.

17 MS. HOPFENBECK: You can have that. Just take
18 that out.

19 MR. REICHMAN: Okay.

20 Q BY MS. HOPFENBECK: Okay. Mr. Teitzel, beginning
21 on page 15, you discuss two hypotheticals. This is from
22 pages 15 through 17. You discuss hypotheticals in which
23 you try to try to explain sort of the impact of changes in
24 price on both Qwest's margins and the IXC margins; is that
25 right?

1 A That's correct.

2 Q Now, what -- do you see that on the document
3 that's been handed to you, WorldCom Exhibit 3, that we've
4 illustrated the hypotheticals that you have discussed in
5 your testimony. Example 1 is the first hypothetical that
6 you discuss on page 15 and example 2 is the second
7 hypothetical you discuss assuming that toll price is driven
8 down from 10 cents to 9.8 cents.

9 A I have only just seen this. But in looking at it
10 briefly, this does not appear to reflect my testimony,
11 which obviously assumes that switched access prices are
12 opportunity costs for Qwest. And that is not reflected
13 there. If it was reflected here, then the Qwest access
14 before looking for economic cost factor would reach 7.8
15 cents.

16 Q Let's walk through this hypothetical. I'll pose
17 a different one to you.

18 A That's fair.

19 Q And walk through this. First of all, do you
20 agree that it's a reasonable assumption that -- well, first
21 of all, let's assume for a moment that the -- that as you
22 have here, that switched access charges are 7.8 cents per
23 minute while the cost of supplying switched access service
24 is 1.2 cents. Okay. That's what you state at page 15 in
25 your testimony?

1 A That's a fair hypothetical.

2 Q Okay. First of all, if switched access charges
3 are 7.8 cents per minute, would you agree that the
4 interexchange carriers pay 7.8 cents to Qwest for switched
5 access service that Qwest provides them; is that right?

6 A If the carrier uses Qwest switched access
7 charges, that would be correct.

8 Q And so if you look at the top half of the
9 exhibit, the right-hand column, assuming retail price of 10
10 cents, would you say that that particular box in the upper
11 right-hand corner of this exhibit reflects a reasonable
12 hypothetical, assuming retail price of 10 cents, 7.8 cents
13 as a cost the IXC incurs for switched access service, 2
14 cents as a cost the IXC incurs for billing and collection
15 of the retailing costs. Do you agree?

16 MR. REICHMAN: I want to object to the words
17 "reasonable hypothetical". I'm not sure what you mean.

18 MS. HOPFENBECK: I'm asking the witness if he
19 thinks this is a reasonable hypothetical. I mean, he laid
20 out these numbers as 10 cents retail price, cost of 7.8
21 cents for switched access and 2 cents for intracompany
22 costs including billing and collection.

23 Q BY MS. HOPFENBECK: I assume you thought that was
24 a reasonable hypothetical.

25 A I would respond by saying that if the carrier

1 were purchasing a hundred percent of their access from
2 Qwest and used no other forms of provisioning long
3 distance, this is reasonable.

4 Q Okay. We'll get into that later.

5 ALJ CROWLEY: Let me just see if this clears up
6 Mr. Reichman's question.

7 MR. REICHMAN: Perhaps the witness understands
8 the phrase better than I do. Fine.

9 ALJ CROWLEY: He gave us --

10 THE WITNESS: It's illustrative.

11 ALJ CROWLEY: He gave us a set of conditions
12 which he considers as reasonable.

13 MR. REICHMAN: That's fine.

14 ALJ CROWLEY: Okay.

15 Q BY MS. HOPFENBECK: Under those circumstances,
16 the IXC's gross margin you'd agree is 2 cents; is that
17 right?

18 A Under those circumstances.

19 Q Now, let's talk about Qwest. Qwest would also
20 charge the customer 10 cents for the intraLATA toll service
21 that Qwest provides the customer, correct?

22 A Correct.

23 Q Now, the cost that Qwest incurs to provide that
24 intraLATA toll service to the customer, and let's for
25 purposes of this question assume there were no competitors

1 in the market, would you agree that the cost that Qwest
2 incurs is only 1.2 cents?

3 A In a hypothetical example, which I think this
4 would be, we would say that the cost to provide toll
5 hypothetically was 1.2 cents. And my hypothetical in my
6 testimony and in this example, as I said previously, Qwest
7 believes that switched access, if we sell a minute of toll
8 and switched access, that the price of switched access is
9 an opportunity cost. It's revenue the company foregoes by
10 selling toll instead of switched access. It's a true
11 economic cost.

12 Q Now, in this hypothetical, would you agree that
13 Qwest -- you say it's an opportunity cost in the sense that
14 if Qwest were not providing intraLATA service to customer
15 A, but that customer A was being served by an interexchange
16 carrier, Qwest would receive 7.8 cents from the
17 interexchange carrier for the switched access; is that
18 right?

19 A If, in fact, the carrier was using Qwest to
20 provide the access function, that would be correct.

21 Q Now, if on the other hand Qwest is providing
22 intraLATA toll service to the customer, Qwest is receiving
23 10 cents per minute for the toll service that the
24 interexchange customer purchases from Qwest. Would you
25 agree?

1 A I would agree with that.

2 Q And Qwest is, in fact, incurring a cost of
3 provisioning that toll service that is equal to 3.2 cents;
4 isn't that right?

5 A Again, I think we have a fundamental disagreement
6 as to what is a cost.

7 Q Well, let me ask you this: Would you agree that
8 when Qwest serves customer A, instead of the IXC, Qwest
9 receives from customer A 6.8 cents that it would -- and
10 among that is the 6.6 cents that it would otherwise receive
11 from the interexchange carrier in access charges. Do you
12 agree with that?

13 A Again, if that carrier were using Qwest strictly
14 as the provider of the functioning of connecting to the
15 customer or connecting to the network, that would be
16 correct.

17 Q Now, the cost -- let's talk about what cost Qwest
18 incurs providing toll services to its customers. What are
19 those? What are the costs that Qwest incurs in providing
20 toll to its customers? What building blocks are necessary
21 to provide toll service?

22 A I can tell you generally what sort of functions
23 are required to provide toll service. And whether they
24 translate to a building block, I'm not absolutely certain.
25 But you would have things like local switching in the local

1 switching office. We'd have interoffice transport, which
2 is carrying the call between offices. There would be
3 billing functions, collections functions, marketing
4 functions. Those are all assumed in the cost of a toll
5 minute.

6 Q And those are all the costs that are reflected in
7 the 3.2 cents network costs of goods sold reflected on the
8 hypothetical that we have before you and discussed in your
9 testimony; would you agree?

10 A Those would be considered I think TSLRIC based
11 costs as opposed to an opportunity cost.

12 Q And putting aside the opportunity costs, what
13 Qwest receives from that IXC customer that they serve
14 instead of the interexchange carrier is 6.8 cents above
15 that cost that they incur of goods sold?

16 A Again, using this strict hypothetical, that would
17 be correct.

18 Q Okay. Now, that 6.8 cent gross margin compares
19 to the gross margin that the interexchange carrier receives
20 of just .2 cents; isn't that right?

21 A Once again, accepting the hypothetical and
22 assuming the carrier uses nothing but Qwest switched access
23 to reach the end user customer and assuming that costs were
24 not viewed as opportunity costs, that would be correct.

25 Q I want to ask you something about your statement

1 on page 16 at lines 9 and 10.

2 A I have that page.

3 Q There you state, "Qwest must charge itself
4 precisely the same 7.8 cents per minute it charges AT&T
5 under imputation rules."

6 In what sense does Qwest charge itself that 7.8
7 cents?

8 A My statement assumes that Qwest would impute
9 itself, if you will, the price of an element that were
10 considered to be quote, unquote essential.

11 Q In imputing that, it has to assure that its price
12 is above that imputed price floor; is that right? That's
13 the way in which it charges itself that rate; is that fair?

14 A A price floor -- I believe that a price floor
15 would be defined as being an index to prevent a price
16 squeeze in a competitive marketplace so that that price
17 floor should properly reflect, if it's administered
18 properly, the minimum charge in this case Qwest could offer
19 in the marketplace.

20 Q But there's no -- I mean, unlike AT&T and
21 WorldCom that actually pay Qwest the 7.8 cents for the
22 switched access service we receive from Qwest, Qwest
23 doesn't pay anybody that 7.8 cents, does it? It doesn't
24 charge itself in the sense that dollars actually change
25 hands from one division in Qwest to another, does it?

1 A Once again I have to reiterate, if Qwest does not
2 sell switched access minute it would sell a toll minute and
3 vice versa. And in that example a switched access minute,
4 a price for that minute, would be considered an opportunity
5 cost. And an opportunity cost is a true economic cost to
6 Qwest.

7 Q So it sounds to me, Mr. Teitzel, like there is a
8 circumstance under which there's a price for toll service
9 below which Qwest just really doesn't -- wouldn't have an
10 interest in providing toll services to the customer itself;
11 is that true?

12 A Let me say that if Qwest were to charge a price
13 below switched access rates, we would be foregoing margin
14 to the company. It would not make economic sense to do
15 that. Again, assuming that same minute could be sold to a
16 carrier and the carrier had a hundred percent reliance on
17 Qwest's network.

18 Q And essentially would you agree that that's
19 because that what happens is it's just all dependent on the
20 focus of the profit margin that Qwest is seeking?

21 I mean, Qwest -- when switched access rates you
22 would agree are above the cost that Qwest incurs to provide
23 the toll service, the interexchange service pay more than
24 Qwest incurs to provide the service itself, then it's the
25 difference between the cost Qwest incurs and the price that

1 we are paying?

2 Essentially that contribution is where Qwest is
3 receiving its profit margin. They're shifting the
4 profit to the IXCs. Would you agree?

5 A I'm not sure I entirely followed your question.
6 I believe that I said that Qwest would -- if a carrier were
7 a hundred percent reliant upon Qwest to provide long
8 distance services to an end user customer -- in other
9 words, if a switched access were a hundred percent
10 essential to that carrier, then Qwest would charge a price
11 below that switched access rate that it's charging to that
12 carrier, that there's a requirement that we do that for
13 price squeeze purposes. If we were to opt to charge below
14 that, even in a hypothetical, Qwest would be receiving less
15 margin.

16 Q Okay.

17 A As a company. So there would be no economic
18 incentive to do it.

19 Q So essentially it's only when Qwest sets its
20 rates for toll service below what it's charging to the
21 interexchange carriers for switched access that the
22 opportunity cost analysis kicks in; is that right?

23 A I think that so long as it is charging a price
24 equal to or higher, then Qwest is pricing in an
25 economically rational manner.

1 Q And that would be true whether switched access
2 charges were set at the rate that Qwest proposes in this
3 proceeding or whether they were set at cost as WorldCom and
4 AT&T have proposed in this proceeding; isn't that true?

5 A Again, I'm not sure I'm following your question.
6 Could you restate that?

7 Q Well, wouldn't it be true that if you accept my
8 hypothetical that the Commission were to adopt WorldCom and
9 AT&T's recommendation in this proceeding and set switched
10 access at cost or equal to the rates for equivalent
11 elements established in UM 844, then Qwest could price its
12 intraLATA toll service and Qwest would not suffer any loss
13 of margin to the interexchange carriers so long as its
14 rates for toll service exceeded the price floor established
15 at that level of cost; isn't that right?

16 A I'm not sure I follow that at all. I would
17 respond by saying that if switched access prices were
18 reduced to cost, directly to TSLRIC, then to the extent
19 that Qwest loses a minute to a carrier, that carrier is
20 using switched access to terminate or originate that
21 minute, that margin is lost to Qwest. That margin in
22 Oregon must be shifted to other services, especially in
23 this case where there's a finite revenue requirement, if
24 you will, that we're dealing with.

25 Q Okay. If instead of the hypotheticals that we

1 are reflecting in Exhibit WorldCom 3 we assume that Qwest
2 has experienced cost to itself to provision intraLATA toll
3 service as 1.2 cents, as we have already discussed, and we
4 assume that the interexchange carriers' cost for switched
5 access for services are equal, that this Commission agrees
6 with AT&T and WorldCom that we should pay the same costs
7 that Qwest confronts itself.

8 Would you agree that Qwest will always in that
9 instance do better by serving customers itself as its toll
10 provider and will always have incentive to serve those
11 customers so long as its rates are above that 1.2 cents
12 cost and the Qwest billing end collection costs?

13 A As an economically rational company, if switched
14 access prices were set exactly at cost, Qwest would clearly
15 have an incentive to try to sell as many toll minutes as
16 possible as opposed to switched access because switched
17 access would virtually have no margin.

18 Q Okay. Let's move on to Qwest --

19 MS. HOPFENBECK: I mean, at this point I think
20 I'm going to move for the admission of WorldCom Exhibit 3
21 as an illustrative exhibit only.

22 MR. REICHMAN: Your Honor, we object to WorldCom
23 3 for two reasons. It purports to be setting forth the
24 example that Mr. Teitzel has in his testimony. It says
25 "Teitzel example at 15 and 16." It does omit at least one

1 critical aspect at least in the testimony which is in
2 Teitzel figuring the cost of opportunity costs. So it's
3 not an accurate representation of that example.

4 Our other concern is it needs to make it clear
5 that these are all hypothetical numbers and do not
6 necessarily bear any relationship to any costs.

7 ALJ CROWLEY: I share Mr. Reichman's concern
8 about this exhibit.

9 MS. HOPFENBECK: Why don't we just -- I would
10 proposed a modified offer, which is we modify it to
11 eliminate the reference to Teitzel example at 15 to 16 and,
12 therefore, move the admission for purposes of just
13 illustrating the discussion that Mr. Teitzel and I have
14 just had.

15 ALJ CROWLEY: It illustrates your view of the
16 discussion. I mean, I heard something very different in
17 terms of the discussion.

18 MS. HOPFENBECK: Qwest I think will also use it
19 to illustrate what they view. I mean, it just --

20 ALJ CROWLEY: I'm not going to admit it at this
21 point. I find it more confusing than helpful. If you want
22 to submit a revised version, you're free to do that.

23 MS. HOPFENBECK: Okay.

24 Q BY MS. HOPFENBECK: I'd like to direct your
25 attention to page 18 of your rebuttal testimony at lines 5

1 through 7.

2 A I have that page.

3 Q Here you discuss your concern that the actual
4 average switched access rate per minute that the
5 interexchange carrier incurs is actually lower than what
6 would be reflected in simply a discussion of intraLATA toll
7 services; is that right?

8 A You're referring to lines 5 through 7 of my
9 testimony?

10 Q Yes. You state, "Since interstate switched
11 access prices are typically lower than intrastate prices,
12 the interexchange carriers typically carry their customers'
13 intraLATA and interLATA interstate calls". Excuse me.
14 "And interexchange carriers typically carries their
15 customers' intraLATA and interLATA interstate calls. Their
16 actual average switched access rate per minute is lower
17 than the intraLATA switched access rate Qwest must impute
18 to itself."

19 Is that what you say there?

20 A I believe we talked earlier about a plan called
21 the Green Cents plan and talked about the fact that it was
22 an interstate and intrastate plan which required the
23 customer to subscribe to both plans. Using that as an
24 example, Mr. Brigham I believe mentioned that carriers
25 typically think about their long distance product or market

1 wholistically. And in that event, the average switched
2 access rate per minute, assuming interstate access rates
3 are lower than intrastate, would be lower than the
4 intrastate alone.

5 Q Well, I think I recalled our Green discussion
6 about the Green Cents plan as being a discussion of the
7 price that the interexchange carriers receive under that
8 plan.

9 I wanted to ask you, would you agree that the
10 prices that interexchange carriers charge for interstate
11 service is generally lower than the prices that are charged
12 for intrastate intraLATA service?

13 A That is generally true.

14 Q And so that lower price offsets any benefit in
15 terms of margin that the interexchange carriers gain by
16 incurring lower interstate access charges; is that true?

17 A Not knowing the specific weighting of the
18 intrastate/interstate, I have a hard time answering that.
19 But there would be some offsetting effect.

20 Q Okay. Now, you also referenced a number of times
21 when we were discussing the hypothetical the fact that we
22 had to assume that all of the services, intraLATA services,
23 for this hypothetical, that the IXCs were providing were by
24 means of Qwest switched access services. Do you recall
25 that?

1 A I recall that.

2 Q And I think it's Qwest's view that when an
3 interexchange carrier provides intraLATA toll services or a
4 portion of those using dedicated facilities, that that has
5 the effect of lowering the average rate per minute they pay
6 for switched access services. Is that Qwest's view?

7 A I believe that to be true.

8 Q Okay. Let's explore that a little bit. First of
9 all, when an interexchange carrier provisions intraLATA
10 toll using a dedicated facility, it incurs a cost

11 associated with that dedicated facility; isn't that right?

12 A The dedicated facility could be their own or one
13 purchased from another carrier, including Qwest. So there
14 would be some cost associated with that.

15 Q That cost is -- assuming the carrier purchases it
16 from Qwest and they purchase it out of Qwest's private line
17 tariffs; is that right?

18 A Correct.

19 Q And typically pay a flat rate for the facilities;
20 is that right?

21 A That's typically true.

22 Q Now, did you happen to review WorldCom's
23 responses to Qwest's recent data requests in which WorldCom
24 explained that they charge their customers served on
25 dedicated facilities a flat rate for that facility?

1 A I don't recall seeing that specific response.

2 Q Assuming that's the case, that customers served
3 by dedicated facilities are also charged a flat rate to
4 compensate WorldCom or AT&T for the use of that facility,
5 would you agree that that will not have any impact on what
6 the carrier pays as an average rate for switched access
7 service?

8 A I completely disagree with that. If WorldCom,
9 for example, is charging the end user a flat charge for the
10 special access or dedicated facility and if WorldCom is
11 charging that end user for long distance traffic that's
12 either originated or terminated by that facility, that
13 would definitely decrease their switched access average
14 rate. There's no average rate billed for that traffic.

15 Q But you would agree that WorldCom doesn't
16 purchase switched access services from Qwest to provision
17 intraLATA service to the customers served on the dedicated
18 facility, do they?

19 A I believe my point was the average price they
20 would pay, the cost to WorldCom for originating or
21 terminating a minute of toll traffic, is reduced through
22 the use of special access.

23 Q So --

24 A In that example. Especially if they're charging
25 that price to the end user.

1 Q Okay. So let's walk through this. First of all,
2 I think you would have to agree that when WorldCom serves
3 an intraLATA toll customer by use of a dedicated facility,
4 it does not pay Qwest switched access rates; is that
5 right?

6 A That's correct.

7 Q It pays Qwest a flat fee for the dedicated
8 facility and that is all they pay; is that right?

9 A They pay a flat fee and no access charges for any
10 traffic originating or terminating to that customer.

11 Q It's only when Qwest - when WorldCom uses Qwest's
12 switched access services to provision intraLATA toll
13 service to its customer that it pays for switched access
14 for the minutes that that customer -- minutes of use that
15 customer makes; isn't that right?

16 A It's another way. They only pay switched access
17 charges if that minute of use interacts with Qwest's
18 network.

19 Q So the only way that you come up with your
20 conclusion that the provisioning of toll over dedicated
21 facilities has the effect of reducing the average per
22 minute that WorldCom and AT&T pay for switched access is by
23 essentially changing the numerator and the denominator,
24 whereas where you increase the total minutes of toll
25 traffic and you leave the switched access revenues the

1 same; is that right?

2 You include the toll traffic carried over both
3 dedicated facilities and switched access facilities but you
4 only include the rev -- the charges for switched access
5 service; is that right?

6 A Not entirely. I think what we're saying is that
7 when thinking about a carrier's long distance business, the
8 carrier is going to include, incorporate, all the costs
9 they incur to support all the minutes they carry. Some of
10 those costs are switched access costs, some are direct
11 connect costs provided by the carrier itself, some are
12 costs paid to other carriers such as Qwest for special
13 access service. Overlaying that, the numerator would be
14 all the minutes they carried in that state.

15 And I would suggest that when that division is
16 done, that number is different than Qwest switched access
17 prices. It is lower.

18 Q But that division, that -- the result of that
19 equation that you've just laid out, is not an average
20 charge per switched access minute, is it, because you're
21 including costs and revenues associated with dedicated
22 access as well as switched access; isn't that fair?

23 A I think the presumption would be you would be
24 thinking about all of the costs and all of the minutes that
25 the carrier carries in total.

1 Q And WorldCom and AT&T provide service to their
2 toll customers. There's no reason to believe that WorldCom
3 and AT&T provide service to their intraLATA toll customers
4 in any different way than Qwest provisions toll service to
5 its customers; is that right, in terms of facilities that
6 are used?

7 A I don't presume to know exactly how WorldCom or
8 AT&T provisions service to all of their customer base. I
9 do know they purchase special access type services, both
10 carriers do from Qwest. I do know they both self-provision
11 services.

12 Q And to the extent --

13 A Qwest self-provisions also. I'm sorry.

14 Q Right. To the extent that Qwest self-provisions
15 and WorldCom self-provisions, if they're both operating
16 efficiently, they should incur roughly the same costs to
17 provide service to those customers; is that right?

18 A Again, that calls for a conclusion I'm not sure I
19 can reach. Qwest customer makeup I believe in this state
20 in particular would be different than either AT&T or
21 WorldCom's customer makeup.

22 I can tell you I believe I cite in my rebuttal
23 testimony, I don't recall the exact page, but AT&T's
24 network chief was talking about the fact that about 50
25 percent of AT&T's business minutes run directly to the

1 customer from AT&T's switch. And I think that's a higher
2 proportion than Qwest's in terms of a special access or
3 private line type facility.

4 Q As far as the intraLATA toll calling plans to
5 which -- that are an issue in the imputation analysis and
6 the one we're considering the cost that the IXCs pay for
7 switched access, those are not -- the customers that
8 receive services from dedicated facilities are not the same
9 customers that receive service under those calling plans,
10 are they?

11 A Calling plans typically, we do have plans like
12 prime saver which are for the higher volume customers. But
13 the city connection, the simple value type plans are
14 typically for the smaller, lighter user.

15 Q And the plans that we're talking about here like
16 Super Saver are for customers that are served typically
17 with switched access service, not dedicated facilities; is
18 that right?

19 A I'm sorry. You're using a term "switched
20 access". They're services that are provided over Qwest's
21 switched network. They're not provided through private
22 line facilities from our central office to our customer
23 necessarily.

24 Q Now, finally I want to talk to you about page 20
25 where you discuss Mr. DiTirro's concern that Qwest is

1 seeking to decrease its toll rates more than he proposed
2 decreases for switched access.

3 Do you see that testimony?

4 A I'm sorry. Can you refer me to a line number?

5 Q The question begins at line 15.

6 A I have that.

7 Q Now, you suggest that Mr. DiTirro is incorrect in
8 his testimony and that Qwest's proposal reduces switched
9 access by a greater magnitude than it proposed to decrease
10 intraLATA toll rates. Do you see that?

11 A I do.

12 Q And you note that it's proposing to reduce
13 switched access by an average of 52 percent while Qwest
14 intraLATA toll rates are proposed to be reduced by an
15 average of 42 percent?

16 A That is correct.

17 Q Now, in Mr. DiTirro's testimony he was not
18 referring to the reductions or comparing the reductions in
19 toll or switched access in percentage terms, was he?

20 A To be honest with you, I don't recall the
21 specific cite to Mr. DiTirro's testimony, but I will say
22 that these percentages are absolutely correct. Qwest is
23 reducing.

24 Q I'm not questioning your percentages here, Mr.
25 Teitzel. I'm just asking you if you look at the reductions

1 in a different way, I mean, not in percentage terms but in
2 the actual reduction per minute, that toll rate reduction
3 is greater than switched access; isn't that right?

4 A If the reduction were being looked at as strictly
5 a raw price change, not a percentage change, then the toll
6 price is coming down more -- more pennies, more cents, than
7 would be switched access.

8 MS. HOPFENBECK: Thank you. I don't have
9 anything further. Before we stop I'm just going to present
10 you with an exhibit and have it -- see if you can identify
11 it.

12 I believe this will be marked as WorldCom Exhibit
13 4 for identification.

14 Q BY MS. HOPFENBECK: Mr. Teitzel, I've just
15 presented to you a document that's been marked as WorldCom
16 Exhibit 4 for identification. Do you recognize this
17 document as being Qwest response to AT&T's data request
18 number 22?

19 A To clarify, are you asking about both of these
20 documents?

21 Q Yes. Together.

22 A In combination?

23 Q Yes. I believe the second document is the
24 attachment that's referenced in the response to the data
25 request.

1 A I do recognize this. And I would note that this
2 is a confidential attachment. Also should this be in
3 yellow paper?

4 ALJ CROWLEY: Normally we ask that confidential
5 documents be submitted on yellow paper. It makes it easier
6 for our staff to keep track.

7 MS. HOPFENBECK: Yes.

8 MR. TRINCHERO: Your Honor, if I may address
9 that. We made copies on yellow paper but they did not make
10 it from Portland to Salem for some reason. We have availed
11 ourselves of a copy machine in this building and there was
12 no yellow paper. And we will supply yellow copies
13 tomorrow.

14 ALJ CROWLEY: Okay. It's just a matter of
15 housekeeping. It makes it much easier.

16 MR. TRINCHERO: Thank you.

17 MS. HOPFENBECK: Now I move the admission of
18 WorldCom Exhibit 4.

19 ALJ CROWLEY: Any objections?

20 Hearing none, it's admitted.

21 MS. HOPFENBECK: Actually, I apologize for this,
22 Your Honor. But apparently the exhibit isn't quite -- the
23 supplemental response contained an additional attachment.
24 And we should put both of them into the record so that the
25 response is complete.

1 ALJ CROWLEY: May I have a copy of the second
2 attachment, please?

3 MS. HOPFENBECK: I apologize. I keep forgetting
4 the most important person.

5 ALJ CROWLEY: And is this part of a response?

6 MS. HOPFENBECK: What this is --

7 ALJ CROWLEY: All right. Just to clarify for the
8 record, could you run us through what we're holding? There
9 are three sets of documents.

10 MS. HOPFENBECK: I know. You know what, Your
11 Honor, I'm going to have to -- I think what we're going to
12 do is leave these marked. And the problem is that WorldCom
13 was not, when we were served with copies of these requests,
14 the attachments were out of order. And Mr. Trincherro knows
15 better than I do exactly which attachments go with which
16 document.

17 So I'm going to cease my cross examination at
18 this point and let Mr. Trincherro take over and he'll walk
19 the witness through this.

20 ALJ CROWLEY: So --

21 MS. HOPFENBECK: And the record will be clear.

22 ALJ CROWLEY: These three stapled sets of paper
23 are all WorldCom 4?

24 MS. HOPFENBECK: Yes.

25 ALJ CROWLEY: Okay. And since you've just given

1 us a new -- a new attachment, is there any confusion about
2 what we have here?

3 MS. HOPFENBECK: It's WorldCom 4. And I'll cease
4 my cross examination. It's not --

5 ALJ CROWLEY: Right.

6 MS. HOPFENBECK: It's not admitted. And Mr.
7 Trincherro will walk through it and we'll know exactly.

8 ALJ CROWLEY: So you've withdrawn it at this
9 point because you've supplied a new attachment and you're
10 re-offering it. And did you say it's not admitted?

11 MS. HOPFENBECK: No, I'm not offering it at this
12 time. And I'll let Mr. Trincherro do it.

13 ALJ CROWLEY: Thank you. Mr. Trincherro?

14 MR. TRINCHERO: Thank you, Your Honor.

15 --ooOoo--

16 CROSS EXAMINATION

17 BY MR. TRINCHERO:

18 Q Good afternoon, Mr. Teitzel.

19 A Good afternoon, sir.

20 Q Let's take care of this WorldCom 4 exhibit
21 first. You have in front of you copies of Qwest's response
22 to AT&T data request 03-022 which references in turn
23 supplemental responses from Qwest to AT&T's data request
24 01-011; is that correct?

25 A That is correct.

1 Q And that is a two-page document? Marked at the
2 top is AT&T 03-022? Do you see that one?

3 A Yes. The 03-022 document is a two-page document,
4 yes.

5 Q Thank you. And do you also have a four-page
6 document that's marked at the top as Qwest response to AT&T
7 01-011 and then it is designated at S1, which is a --

8 A That is correct. I have that.

9 Q And that is a supplemental response; isn't that
10 correct?

11 A Yes, it is.

12 Q To that data request. And it has a confidential
13 attachment, Attachment D, attached to it. It's three
14 pages.

15 MR. MANIFOLD: It has.

16 MR. TRINCHERO: Thank you.

17 Q BY MR. TRINCHERO: Is that correct?

18 A It has Attachments D, E and F attached to it,
19 yes.

20 Q D, E and F. Thank you. And you should also have
21 a three-page document marked as confidential Attachments A,
22 B and C with the headings "Wyoming", "Nebraska" and
23 "Montana" respectively?

24 A That is correct.

25 Q And this is on white paper but it is actually a

1 confidential document?

2 A That's also correct.

3 Q And this in turn -- and I hope you can answer
4 this for me -- this was actually attached as part of
5 Qwest's response to AT&T 03-022, but it is also part of the
6 supplemental response to AT&T 01-011 S1; is that correct?

7 A I see that 01-011 referenced as a
8 non-supplemental response and also as a supplemental
9 response.

10 Q Right.

11 A So it's referenced in both places.

12 Q Very good. And you do recognize these as Qwest's
13 responses to these data requests?

14 A I do.

15 Q Thank you.

16 MR. TRINCHERO: Your Honor, these combined
17 documents as WorldCom 4 AT&T would seek to admit at this
18 point.

19 ALJ CROWLEY: Any objections?

20 MR. REICHMAN: I just have a comment. Not to add
21 any more confusion to what is already a bit confusing, but
22 I think that these data responses seem to reference other
23 attachments that are not included herein.

24 I don't object to inclusion of this. I would
25 reserve the right to supplement the record to include the

1 full responses, if appropriate.

2 ALJ CROWLEY: You may.

3 MR. REICHMAN: Thank you.

4 ALJ CROWLEY: Given that condition that Mr.
5 Reichman reserves the right to supplement as necessary,
6 the document is admitted. The documents are admitted as
7 WorldCom 4.

8 MR. TRINCHERO: Thank you, Your Honor. And thank
9 you, Mr. Teitzel, for your patience.

10 THE WITNESS: Certainly.

11 Q BY MR. TRINCHERO: Turning to your rebuttal
12 testimony in Qwest Exhibit 222 at page 25.

13 A I have that page.

14 Q You state beginning at line 2, "Protections
15 against price squeezes are currently in place in Oregon and
16 will continue to be in place after the UT 125 rates are put
17 into effect."

18 Is that correct?

19 A That's correct.

20 MR. TRINCHERO: Your Honor, if I might approach?

21 ALJ CROWLEY: Yes.

22 MR. TRINCHERO: Your Honor, I'd ask for your
23 assistance in the numbering. This would be AT&T -- what
24 would that be, 9 or 10?

25 ALJ CROWLEY: AT&T 9 it would be.

1 Q BY MR. TRINCHERO: Mr. Teitzel, I've handed you a
2 one-page document. Is this Qwest's response to AT&T data
3 request 04-025.

4 A It is.

5 Q And in that data request, you were asked for
6 support for the statement in your rebuttal testimony that I
7 read to you earlier; is that correct?

8 A That is correct.

9 Q And in this response, you reference ORS 759.410;
10 is that correct?

11 A That's also correct.

12 MR. TRINCHERO: Your Honor, if I might approach
13 again?

14 ALJ CROWLEY: Please.

15 MR. TRINCHERO: Your Honor, if I could have this
16 marked as AT&T 10.

17 Q BY MR. TRINCHERO: Mr. Teitzel, I've handed you a
18 document entitled "Proposed amendments to House Bill
19 2659". And it has been marked as AT&T 10.

20 If I give you a moment to read through this,
21 could you then answer the following question: Does this
22 document propose amendments to the imputation test set
23 forth in ORS 759.410?

24 MR. REICHMAN: And I'm going to object to the
25 question. It calls for a legal conclusion.

1 ALJ CROWLEY: Let's let the document speak for
2 itself.

3 MR. TRINCHERO: And, Your Honor, if I might.

4 ALJ CROWLEY: Yes.

5 MR. TRINCHERO: Unfortunately, this was the very
6 best copy --

7 ALJ CROWLEY: Right.

8 MR. TRINCHERO: -- of this that we could get.

9 ALJ CROWLEY: The document says that this is
10 amendments to 759.410 as amended.

11 THE WITNESS: And, Mr. Trincherro, I will read
12 this in a moment. Could you just ask me your question
13 again so I can be keyed to the specific thought?

14 Q BY MR. TRINCHERO: Yes. Would these proposed
15 amendments to ORS 759.410 amend the provisions that you
16 have cited as protections against price squeezes that are
17 in place in Oregon?

18 MR. REICHMAN: Your Honor, I'm not sure what -- I
19 objected and you said let the document speak for itself.

20 ALJ CROWLEY: I'm sorry. I heard the question to
21 be would it amend .410, which clearly it purports to do.

22 MR. REICHMAN: All right.

23 ALJ CROWLEY: Now you're asking a different
24 question from what I had heard the first time, Mr.
25 Trincherro.

1 MR. TRINCHERO: Yes. How about if we step back?

2 ALJ CROWLEY: Yes, let's step back.

3 Q BY MR. TRINCHERO: Does this document purport to
4 contain proposed amendments to ORS 759.410?

5 A Well, the document, if I could respond, is
6 entitled, "Proposed Amendments to House Bill 2659". Now, I
7 am not certain, since I'm not an attorney, as to whether
8 that House Bill translates to that specific statute. If it
9 does translate to that statute, this does appear to be an
10 amendment.

11 Q Thank you. Can I have you turn to page 2 of AT&T
12 10. And under what is entitled "Subsection 4" beginning at
13 line 14, you see the sentence that starts, "A
14 telecommunications carrier that elects to be subject" -- et
15 cetera?

16 A Yes, I do.

17 Q Can you please read that section to yourself,
18 that sentence that commences on line 14 and ends on line
19 20. And let me know when you're done.

20 A I have read that.

21 Q Thank you. In your non-legal opinion, is that a
22 statement that relates to price floors?

23 A In my non-legal opinion, that relates to price
24 ceilings.

25 Q I'm sorry. Price ceilings. Yes. Thank you.

1 And in subsection 5, beginning at line 22 and ending at
2 line 25, if after reading that, can you tell me whether or
3 not that relates to price floors and price ceilings?

4 A That section does relate to both price ceilings
5 and price floors, yes.

6 Q Thank you.

7 MR. TRINCHERO: Your Honor, I would move
8 admission of AT&T 10.

9 MR. REICHMAN: Your Honor, we object to admission
10 of AT&T 10. This is a draft of a proposed bill. My
11 understanding is that this bill is dead and will not pass
12 through session. I don't see that this has any relevance
13 to the testimony.

14 MR. TRINCHERO: Your Honor, if I might respond?

15 ALJ CROWLEY: Please.

16 MR. TRINCHERO: Again, I don't know how we're
17 going to get a witness in here that can tell us whether or
18 not this bill is dead. I do know that it was schedule --
19 these proposed amendments were scheduled for a work session
20 last Thursday and the issue was deferred. And I believe
21 it's either going to be taken up today or tomorrow at the
22 legislature.

23 This does -- this document does show that at
24 least some potential amendments to the price squeeze
25 protections that Mr. Teitzel refers to are being

1 considered. And I would offer it for that purpose.

2 ALJ CROWLEY: I'm going to admit on the
3 understanding that it is a draft, that it is not law. That
4 it is simply under the restrictions on its meaning that Mr.
5 Trincherro has just put forward.

6 Subject to those -- for that limited purpose,
7 I'll admit it.

8 MR. WEIRICH: Can we get a better copy of it?

9 ALJ CROWLEY: That would be good.

10 MR. TRINCHERO: Yes. I'm going to attempt to do
11 that. We've been trying.

12 ALJ CROWLEY: Okay.

13 MR. TRINCHERO: To the extent I haven't already
14 done so, Your Honor, I move for admission of AT&T 9.

15 ALJ CROWLEY: Any objection to AT&T 9?

16 MR. REICHMAN: No objection.

17 ALJ CROWLEY: It's admitted.

18 MR. TRINCHERO: Thank you, Your Honor. I have
19 nothing more for this witness, Your Honor. Thank you.

20 THE WITNESS: Thank you.

21 MS. HOPFENBECK: Your Honor, we have found a
22 cleaner copy of the proposed amendment. And we'll be able
23 to have copies made for all the parties this evening.

24 ALJ CROWLEY: Excellent.

25 MS. HOPFENBECK: If that's all right.

1 ALJ CROWLEY: Thank you. All right. Staff?

2 MR. WEIRICH: Thank you.

3 --ooOoo--

4 CROSS EXAMINATION

5 BY MR. WEIRICH:

6 Q Actually, if we can start, Mr. Teitzel, with your
7 exhibit amended version of Qwest 208. Mr. Teitzel, do you
8 have that in front of you?

9 A Yes, I do.

10 Q Okay. I'm trying to understand this exhibit and
11 how it was compiled. You see at the bottom it says, "Grand
12 total minus ILEC"?

13 A Yes, I do.

14 Q XXX
15 XXX

16 MR. REICHMAN: Can I note these are confidential.

17 MR. WEIRICH: I'm sorry. These are confidential.

18 ALJ CROWLEY: Thank you.

19 MR. WEIRICH: Excuse me.

20 ALJ CROWLEY: Going back to have it be
21 confidential beginning at the question.

22 MR. WEIRICH: Okay.

23 Q BY MR. WEIRICH: Do you see the column that says,
24 "Present TY revenue"?

25 A Yes. That's present total year revenue.

1 Q Thank you. Do you see the number at the bottom
2 of the column?

3 A I do.

4 Q Does that number at the bottom of the column
5 include the amounts that you have noted under operator
6 service charges, local and toll?

7 A Yes. That number includes everything except
8 ILEC -- that stands for independent local exchange
9 carrier -- revenues. And those revenues are shown up on
10 the second line on this page.

11 Q All right. Well, turning back to the operator
12 service charges you have another column that says "Present
13 TYMOUs". Would you explain what those abbreviations mean?
14 Do you see your column that says "Present
15 TYMOUs"?

16 A Yes.

17 Q Okay. What does TYMOU stand for?

18 A That's total year minutes of use.

19 Q And under that column --

20 ALJ CROWLEY: Excuse me. Mr. Teitzel, in the
21 exhibit that was replaced by current 208.

22 THE WITNESS: Yes.

23 ALJ CROWLEY: It was test year. Is that what
24 year that is?

25 THE WITNESS: I'm sorry. Test year. That's

1 correct. I stand corrected.

2 Q BY MR. WEIRICH: And that's true for the third
3 column as well, that's test year?

4 A That's correct. I apologize.

5 Q Okay. Going back to the column that's test year
6 MOUs, there's a blank space under operator service
7 charges. Do you see that?

8 A Yes, I do.

9 Q Why is that space blank? What does that
10 represent by a blank?

11 A These are minutes -- operator service charges are
12 charges that are assessed when an operator assists in
13 completing the call. The minutes associated with those
14 charges are included either in the standard MTS minutes on
15 the first line or in the calling plans that fall lower on
16 that page.

17 So if we were to reflect the minutes here, it you
18 would be double counting those minutes.

19 Q Now, are you sure it's -- for under operator
20 service charge, that would be -- the appropriate
21 designation would be MOU, or is it operator contacts or
22 messages?

23 A Operator surcharges such as a person to person
24 call would incur a surcharge, if you will, those revenues
25 included in the present revenue. But it doesn't really

1 correlate to a minute of use. This is a surcharge for the
2 call.

3 Q Okay. What I'm trying to understand is, and
4 maybe you've answered it already then, but to get to your
5 column at the bottom -- well, excuse me. Your fourth
6 column is ARPM. That's average revenue per minute?

7 A Right.

8 Q And you have a figure there at the bottom that
9 we've corrected. We've already discussed that figure. To
10 get to that figure, did you -- how do you get to that
11 number? What's the computation?

12 A Getting to that number is strictly dividing the
13 Qwest revenues for the categories above on this
14 confidential exhibit by the total number of minutes.

15 Q Okay.

16 A For standard toll and all the calling plans in
17 total.

18 Q And does the blank space under operator service
19 charges in the column test year MOUs, is that accounted for
20 in that computation?

21 A No, no. Well, let me back up.

22 Q Okay.

23 A The minutes associated with calls to which an
24 operator surcharge applies have already been accounted for
25 in their relative categories.

1 For example, if there's a standard toll minute,
2 the customer is not a calling plan subscriber, that was a
3 person to person type call, those minutes are included in
4 those test year minutes in that category.

5 Again, if we were to try to break out those
6 minutes separately and report them here, it would result in
7 a double counting.

8 And if I could offer this as well, this may
9 help. You'll note that the present test year revenue on
10 the proposed test year revenue is identical. We are not
11 proposing any changes in that revenue. So in actuality we
12 could have deleted that segment. That may have saved some
13 confusion.

14 Q Deleted which segment?

15 A Deleted the operator service charge component.
16 There's no change in that component in this filing.

17 Q If you had deleted the operator service charges
18 segment, would not ARPM then be reduced or go down?

19 A It would be reduced slightly.

20 Q Okay. Thank you. That's all I have for that
21 exhibit.

22 I'd like to turn to your testimony at Qwest 222,
23 page 6. You have a footnote on page 6. Footnote 2.

24 A I have that.

25 Q Okay. I'll ask you a couple of questions about

1 the footnote.

2 What is the average composite holding time and
3 what percentage of residential and business calling do you
4 compute that deposit from or on; do you know?

5 A If I can answer your question the way I believe
6 it's being phrased.

7 Q Okay.

8 A This is based on December, 2000 data. It's an
9 average of all residential and all business calls in which
10 we are looking at the total number of minutes by those
11 classes of service, divided by the number of calls, which
12 we track separately. And it's just a simple average.

13 Q Okay. I guess what I'm looking for is the
14 composite of the residential and business.

15 A I don't have that on the stand with me. That
16 could be supplied. It's not a number that I've got. It
17 could, obviously, be weighted based on total minutes.

18 Q Going to the weighting then, do you know the
19 percent of the minutes between residential and business,
20 what the percentage would be if you were going to make a
21 composite? 75 percent residential, 25 percent business?

22 A Again, I don't have the numbers on the stand with
23 me. I would hate to guess.

24 Q Okay.

25 A I believe that the minutes of use are weighted

1 towards the residential category.

2 Q I was going to ask you the same question
3 concerning composite average total time in the 1997 test
4 year. I suppose you don't have those number numbers with
5 you either?

6 A I do not. I'm sorry.

7 Q Have you made those calculations before? If I
8 asked you to produce those numbers, is that asking you to
9 provide something you haven't produced before, or do you
10 have those numbers somewhere else?

11 A Those numbers have been done in the past. I'm
12 not sure I could produce them quickly for you. I could
13 commit to check on a break and see if they're available.

14 Q The same question for composite average holding
15 time for the 1989 to 1990 time frame, again, that was used
16 for, as I understand it, UT 85, the UT 85/102 compliance
17 filing.

18 A That was composite holding time for 1989 and
19 1990?

20 Q Yes. Maybe we could talk about it after a
21 break. Apparently you don't have those numbers with you?

22 A I do not on the stand.

23 MR. WEIRICH: I'll reserve the right to pursue
24 that and come back to it after a break.

25 ALJ CROWLEY: You may.

1 Q BY MR. WEIRICH: You were asked a lot of
2 questions, turning to page 8, about Super Savings by
3 WorldCom. And I think I understand your responses.

4 A As you said in your testimony, that you target
5 the customers who are offered Super Savings and it's not
6 broadly advertised. Do you take that tactic with any other
7 of your calling plans such as Simple Value or any other
8 calling plans; we have them available but don't advertise
9 them?

10 A Many of these calling plans are marketed to
11 customers. They're targeted to customers. They're
12 mailings that are mailed out based on segmentations. And
13 segmentations can involve maybe the type of business the
14 customer may be in, absolute amount of usage or revenue the
15 customer creates on a monthly basis. When the customer
16 calls; day, evening, weekend. Those segmentations can
17 drive the sort of planning that we believe will fit that
18 customer's calling pattern. So my answer is yes, we do
19 target and provide targeted mailings to those different
20 segments.

21 Q And you have targeted mailings for Super Savings
22 and Super Savers as well?

23 A I believe there have been mailings. There has
24 been telemarketing for the outbound calls to customer
25 segments to offer that plan.

1 Q Just to kind of wrap this area up then, there is
2 really nothing that prevents the company from broadly
3 advertising these plans if it chooses to do so or if it
4 chose to do so; is that correct? That's a company
5 decision; are you going to target, how are you going to
6 market?

7 A There would be no legal prohibition, if that's
8 your question.

9 Q Right.

10 A From Qwest broadly advertising the plan. But, as
11 I testified earlier, that's not how the plan is being used,
12 or to my knowledge how the plan will be used in the
13 future.

14 MR. WEIRICH: I think that's all I have. Thank
15 you.

16 THE WITNESS: Thank you.

17 ALJ CROWLEY: Thank you. Mr. Manifold?

18 --ooOoo--

19 CROSS EXAMINATION

20 BY MR. MANIFOLD:

21 Q Good afternoon.

22 A Good afternoon, sir.

23 Q Are you prepared to switch subjects?

24 A Yes, I am.

25 Q Are you more than ready to?

1 A I am more than ready to.

2 Q I'd like to talk to you some about basic exchange
3 service. Your proposal, the company's proposal, is to
4 increase residential basic exchange by one dollar, two
5 dollars and three dollars corresponding to each of the
6 zones that are used for wholesale rates; is that right?

7 A That is correct.

8 Q And if I understand your testimony correctly, the
9 main reason for doing that is to move them closer -- those
10 rates closer to the bench mark pursuant to Senate Bill 622?

11 A If I could respond, I would say there are at
12 least two reasons for doing that. I think moving the
13 prices towards that bench mark is certainly an objective.

14 I think another objective is to try align the
15 pricing structure for both business and residential local
16 exchange service with the wholesale pricing structure for
17 unbundled loops, which includes pricing in zones 1, 2 and 3
18 in an ascending price structure.

19 Q The current bench mark as been set by the
20 Commission at \$21, correct?

21 A That is correct.

22 Q And that's the -- would that be the goal, is
23 moving towards the \$21 for those residential rates?

24 A I'm not sure that I would say that we have any
25 kind of a near term goal to get the price to that level.

1 But I think the company does feel an obligation, especially
2 in view of the law, to at least move prices in that
3 direction.

4 Q How do you square the desire to have a price
5 differential between the three zones at the retail level
6 with the statutory provision which has one rate as the
7 bench mark?

8 In other words, they can't all be at \$21 as a
9 bench mark and also have different rates in each of the
10 three zones.

11 A I'm not sure that -- that the two don't square
12 easily together, I will certainly make that comment. It
13 strikes me that the \$21 bench mark is a guideline. It's a
14 target that prices should be set near or about. I'm not
15 sure that \$21 necessarily needs to be a cast in concrete
16 rule for pricing.

17 For example, all business rates would not be
18 reduced to \$21. All residential rates may not be reduced
19 to that level either.

20 Q Increased?

21 A Or it's possible they could eventually at some
22 point in the future be slightly above for the highest price
23 group and a little under for the lowest price group. But I
24 think it's important that, certainly as we think about
25 competition, to have prices in the high cost exchanges to

1 reflect their cost. That was one of the key drivers of our
2 pricing plan that we proposed.

3 Q Were you a witness in the Commission proceeding
4 that arrived at the \$21 for the bench mark?

5 A I was not.

6 Q Are you aware of the FCC's synthesis model which
7 was used by the Commission in that case?

8 A I am generally aware of that model.

9 Q Is it correct that that's a cost proxy model
10 which estimates the total cost of an ILEC, assuming the use
11 of the efficient current technology and given existing wire
12 centers?

13 A I think that's fair.

14 Q Do you know what service costs are included in
15 that model as used by the FCC?

16 A I'm sorry. I'm not an expert in that model. I'm
17 generally aware of it. If I were asked for details in the
18 costs that were in it, I'm not sure I could do an accurate
19 job of that.

20 Q Okay. Are you aware that the Staff -- well,
21 strike that.

22 The company has made a proposal for what I think
23 we could agree would be significant increases in basic
24 measured residential service; is that correct?

25 A Again, I believe our proposal is two-fold, at

1 least two-fold. Drive the price closer to the bench mark
2 and also try to align that measured rate with the
3 deaveraged unbundled loop rate.

4 Q In response to some of AARP's witnesses'
5 testimony, your rebuttal testimony -- I believe it is
6 referred to the measured service rate as a lesser cost rate
7 that's available for people who might have affordability
8 problems with the basic 1FR rate; is that correct?

9 A I believe I did make that statement in my
10 rebuttal, in addition to saying that plans, such as the
11 Oregon Telephone Assistance Plan, are available to help
12 defray the cost for telephone service for those with
13 affordability issues.

14 Q Right. Given the guideline that we've talked
15 about to move rates towards the bench mark, one of those
16 rates would also be the measured service rate; would it
17 not?

18 A Yes, it would.

19 Q If and to the extent that that rate is moved
20 towards the bench mark, then it would no longer be a lower
21 cost alternative to the 1FR rate; is that correct?

22 In other words, another area where there's two
23 goals that are not quite in sync with each other.

24 A If I could respond to your question, I will say
25 that in a hypothetical where both the residential flat rate

1 and the residential measured rate were both taken to \$21,
2 there would be no savings for the customer to switch to
3 residential service.

4 I can't imagine, to be frank with you, that would
5 be an outcome in the near term here, in this state anyway.

6 Q In assessing the cost of the measured rate,
7 there's a flat monthly price and then there's a per usage
8 per minute rate; is that correct?

9 A That is correct.

10 Q How would you assess what the total rate for that
11 is? Would you take -- on an average basis, would you take,
12 for instance, the fixed monthly rate and add to that the
13 average usage rate paid, for instance, by taking the total
14 minutes of use and dividing that into the total revenue
15 derived?

16 A That's one way if you were trying to calculate a
17 strict average. One could take the total average calling
18 volume in a typical month and calculate what the average
19 measured usage rate would be, add to the recurring rate the
20 customer pays for the access line itself.

21 In fact, there's a wide range of usage patterns
22 to customers who use virtually no outbound volumes and just
23 receive strictly inbound volumes for fax machine use or
24 variety of other reasons. Other customers use a very high
25 amount of usage.

1 Q There is a Zone A and a Zone B, as I recall, or a
2 Rate Group A or a Rate Group B within the usage component?

3 A There is currently a Band A and a Band B. Band A
4 is for calling within the customer's local exchange area,
5 home exchange. And Band B is for extended calling beyond
6 that.

7 Q Is Band B calling within the EAS area?

8 A Yes.

9 Q And that's separate and in addition to any EAS
10 charges the customer incurs?

11 A It is instead of those charges.

12 Q Okay. And your proposal is to eliminate that?

13 A Qwest's proposal to collapse Band A and Band B at
14 one price at 3 cents.

15 Q Right. In response to some questions from
16 counsel for WorldCom, you mentioned a survey which
17 indicated -- you said that 50 percent of Oregon, as I
18 understood you, 50 percent of Oregon consumers are hooked
19 up to the internet. Do you recall that?

20 A I do recall that.

21 Q Do you recall if that survey was whether
22 consumers had access to the internet or whether they had
23 the internet in their home?

24 A My recollection is that it said that
25 approximately 50 percent of Oregonians had computers. And

1 of that number, over 50 percent had access to the
2 internet.

3 Q So that was 25 percent of the total number then?

4 A I think I have the study with me here in Oregon
5 in Salem. It's in the trunk of my car. I believe I can
6 resurrect that. It's not in the hearing room.

7 Q Perhaps you could plug my meter in, too.

8 A I can get --

9 Q To the best of your recollection --

10 A I can get the exact cite. As I recall, over 50
11 percent of the Oregonians surveyed had access to the
12 internet.

13 Q Well, and that was just my point, was that access
14 to the internet could mean things other than having a
15 computer hooked up to the internet in your home.

16 For instance, there are people who work places
17 where they have access to the internet but they don't have
18 a computer at home. Those people might have answered yes,
19 I have access to the internet inquiry?

20 A I believe those kind of responses were screened
21 out. But it's been awhile since I have looked at that
22 study, and I can review it again this evening and we can
23 talk about it tomorrow if you'd like.

24 Q Also in response to some questions from counsel,
25 you were talking about the elements, portions of the

1 network that were needed for a long distance telephone
2 call. And I think you started with a switch and
3 interoffice transport and some other elements?

4 A Right.

5 Q Are you assuming that that call terminates at the
6 switch?

7 Let me say I assume you're not assuming that it
8 terminates at the switch. It must go to the consumer?

9 A No. I would augment my answer by saying there
10 would be two ends of the call, the originating and the
11 terminating end. Each end would have a local end office
12 component and there would be interoffice transport between
13 those two offices, as well as switching.

14 Q And when that call got to the switch, what would
15 happen to it? Doesn't it have to leave the switch and go
16 someplace?

17 A It would. It would have to -- be switched in the
18 local office. Typically go to another switch, maybe a
19 tandem switch, if you're familiar with that, to another
20 location and then switched out again through the local
21 network to the end user.

22 Q And to get to the end user, does it leave the
23 central office and go over to what's often called the local
24 loop?

25 A Are you talking about a traditional switched long

1 distance call? We're not talking about internet
2 telephony?

3 Q Right. The same thing you were talking about
4 before.

5 A Okay. If it's a Qwest end user, a Qwest
6 subscriber, then, yes, that subscriber would have a local
7 loop to a local serving office and that would be the
8 transmission path to that call.

9 Q And the call couldn't be completed without also
10 using the loop, even though that wasn't one of the pricing
11 elements you have been talking about earlier?

12 A If it were strictly a -- I'll use an example of a
13 residential subscriber.

14 Q Or small business.

15 A Or small business. And it was a subscriber of a
16 1FB or 1FR, if you will, of Qwest, the Qwest customer, that
17 would typically involve the local facility local loop.

18 MR. MANIFOLD: May I have just a moment?

19 ALJ CROWLEY: Certainly.

20 MR. MANIFOLD: I have no further questions.

21 THE WITNESS: Thank you.

22 ALJ CROWLEY: Thank you. Mr. Reichman?

23 MR. REICHMAN: Thank you.

24 --ooOoo--

25 REDIRECT EXAMINATION

1 BY MR. REICHMAN:

2 Q Let me see if I could clear up a question -- or
3 answer that you tried to give to Mr. Manifold.

4 MR. REICHMAN: May I approach the witness, Your
5 Honor?

6 ALJ CROWLEY: You may.

7 Q BY MR. REICHMAN: I'm handing to you what's been
8 premarked Exhibit Qwest 226. And it's Banerjee page 20.
9 It's the prefiled --

10 MR. MANIFOLD: I can't quite hear you.

11 MR. REICHMAN: Sure. That's Exhibit 226,
12 Banerjee.

13 MR. MANIFOLD: What page? I'm sorry.

14 MR. REICHMAN: Page 20. Exhibit 226, page 20.

15 Q BY MR. REICHMAN: Then I'm going to refer him to
16 lines 14 to 16 and ask if that refreshes your recollection
17 as to the statistics regarding Oregon consumers' use of the
18 computers and access to the internet?

19 A This does refresh my recollection of the
20 numbers. Can I read this into the record?

21 Q I would ask you to do that. There have been no
22 objections to the testimony. Just to close this issue.

23 ALJ CROWLEY: Sure.

24 MR. MANIFOLD: Sure.

25 Q BY MR. REICHMAN: Please.

1 THE WITNESS: This cite beginning at page 14 of
2 Dr. Banerjee's testimony, page 20, Qwest 226 says, "In
3 Oregon the State Office of Economic Analysis reports that
4 in 2000, 70 percent of households in the state own
5 computers, and nearly 63 percent of them had internet
6 access. The latter figure was up dramatically from 24
7 percent in 1996, a gain of nearly a hundred and sixty-three
8 percent in four years."

9 Q Thank you.

10 A That was my recollection.

11 Q Thank you. Let me now take you back to some of
12 the questions that Ms. Hopfenbeck was asking you about the
13 Super Savings plan.

14 I believe you testified that this is a plan
15 that's targeted to certain business customers who might be
16 considering changing toll providers from Qwest; is that
17 correct?

18 A That are changing toll providers or customers we
19 consider vulnerable, at risk customers. Customers we
20 consider to be high value customers, if you will.

21 Q And do these tend to be large volume intraLATA
22 toll users?

23 A Typically they're either large volume or high
24 revenue customers.

25 Q Would they be the kind of customers that

1 another IXC might find it appropriate or economical to
2 serve with a special access circuit?

3 A Some of those customers would not fall in that
4 category, yes.

5 Q And if a -- if an IXC chose to serve one of those
6 customers with a special access circuit, they would not pay
7 Qwest any switched access charges for any of that traffic,
8 correct?

9 A For traffic to and from that customer, that would
10 be correct.

11 MR. REICHMAN: No further questions.

12 ALJ CROWLEY: Thank you. Any follow up?

13 MS. HOPFENBECK: No.

14 ALJ CROWLEY: All right. Thank you, Mr. Teitzel.

15 THE WITNESS: Thank you.

16 ALJ CROWLEY: You're on again for Friday. But,
17 Mr. Weirich, did you want to speak with Mr. Teitzel
18 tomorrow morning in case he needs to generate those
19 figures?

20 MR. WEIRICH: I thought I would talk to counsel
21 after we conclude today to see if we could work it out.
22 And possibly for a few minutes tomorrow we could talk about
23 it. It wouldn't be for more than a few minutes.

24 ALJ CROWLEY: All right. And was somebody able
25 to talk to Mr. Stanage?

1 MR. JONES: Yes. Mr. Stanage would be available
2 Thursday.

3 ALJ CROWLEY: All right. Great.

4 MR. JONES: Just a suggestion. I don't know what
5 everybody has in mind. It looks like to me in the -- from
6 the testimony on Thursday, maybe Thursday afternoon might
7 be the best.

8 ALJ CROWLEY: Okay.

9 MR. JONES: Whatever works out best.

10 ALJ CROWLEY: All right. I'll revise the
11 schedule of witnesses then to reflect that. Thank you.

12 Anything else today before we adjourn?

13 (Recess taken)

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S
 \$21 111:20,23 112:8,13,15,18 113:4 115:1
 \$50 59:21

0
 00 26:7
 00-003 25:17 26:11
 000034 38:5,24 39:7,10
 0003 37:20 38:7,12
 002082 37:4,8
 003 38:11
 00A-201 19:4
 01-011 93:24 94:7 95:6,7
 03-022 93:22 94:2,3 95:5
 04-025 97:3
 052 35:12

1
 1 4:7,16 69:5 111:17
 1.2 69:24 72:2,5 79:3,11
 10 4:12,22 5:4 21:15,19 41:22,24 42:1 66:3 69:8 70:9,12,20 71:20 72:23 75:1 96:24 97:16,19 99:12 100:8,10
 11 4:5,15,16 5:9 21:16 41:7 57:24 11.6 31:7
 12 27:25 28:16 35:9 36:25 41:21 65:24
 125 1:6 96:16
 13 30:21,24,25 37:19 57:24
 14 37:19 38:6 39:11 41:7,24,25 99:13,18 120:16 121:1
 141 66:7,17
 15 37:20 41:25 67:17 68:21,22 69:6,24 79:25 80:11 89:5
 16 25:7 75:1 79:25 80:11 120:16
 17 27:25 37:1 68:22
 18 41:24 80:25
 19 28:16 54:12
 1989 25:2,4 108:15,18
 1990 108:15,19
 1994 25:7
 1996 121:7
 1997 108:3
 1FB 119:16
 1FR 114:8,21 119:16

2
 2 18:19,22,25 19:13 40:14 41:7 51:1 69:6 70:13,21 71:16 74:20 96:14 99:11 106:23 111:17
 20 21:19 22:2,20,22 23:7 34:19,22 88:24 99:19 120:8,14,14 121:2
 2000 25:18 107:8 121:4
 2001 1:1
 201 48:5 52:4 54:10
 202 48:7 52:4
 203 52:4
 204 52:4
 205 52:4
 206 52:4
 207 52:4
 208 48:8 49:6,9,17,18 50:7 51:1,4,17 52:4 53:3,17 102:7 103:21
 21 25:18 27:25 37:1
 218 3:16 5:25
 219 3:18 5:16,25 6:25 7:4 37:22,24 38:11 40:1
 22 30:25 31:2,4 55:9,18 90:18 100:1
 220 3:18 5:25

221 3:19 5:25
 222 48:11 52:4 65:24 96:12 106:22
 223 48:13,18 52:4
 224 52:4
 225 48:19,20 52:5
 226 120:8,11,14 121:2
 228 48:14,21
 230 3:22 4:4,13 5:25 6:13 19:7 20:1 28:16 36:25 37:19 39:11 40:22
 231 3:25 5:25
 24 4:24 14:8 16:9 56:20 57:6 61:1 63:7 64:10 121:6
 25 96:12 100:2 107:21 117:3
 2659 97:19 99:6
 29 1:1
 29th 25:7

3
 3 67:25 68:12,16 69:3 79:1,20,23 111:17 116:14
 3-6 30:23
 3.2 73:3 74:7
 34 38:19
 3rd 6:14 25:18

4
 4 26:11 40:23,25 41:8 54:9 61:9 66:2 90:13,16 91:18 92:23 93:3,20 95:17 96:7 99:12
 410 98:21
 42 89:15

5
 5 6:16 7:21 41:6,18 80:25 81:8 100:1
 5.2 28:13
 5.72 32:7
 50 62:8 87:24 116:17,18,25 117:1,10
 52 89:13

6
 6 11:25 12:10,22 13:12 14:5 35:12 40:8 106:23,23
 6.6 73:10
 6.8 73:9 74:14,18
 622 111:10
 63 121:5

7
 7 16:9 17:4 41:18 61:1 63:7 64:10 81:1,8
 7.8 69:14,22 70:3,4,12,20 72:16 75:4,6,21,23
 70 121:4
 75 107:21
 759.050 24:10
 759.410 97:9,23 98:10,15 99:4
 773 31:13 37:5

8
 8 4:17,20,25 5:5 17:5,6 19:5 28:6,20 35:7,13 40:22 57:24 58:1 109:2
 81 5:17
 82 37:24 38:11
 844 6:20 31:13 55:2,4,12,21 78:11
 85 108:16
 85/102 108:16
 860-027-0052 26:14

9
 9 4:17,18,25 19:19 20:2 75:1 96:24,25 101:14,15
 9.8 69:8

94-160 25:11

A
 AARP 1:10
 AARP's 114:4
 abbreviations 103:13
 ability 33:22
 able 13:10 21:16 55:23 101:22 122:24
 above 42:19,21 43:5,9 54:22,24 74:14 75:12 76:22 79:11 105:13 112:22
 absolute 58:15 109:14
 Absolutely 44:8,11,24 45:3 73:24 89:22
 accept 55:11 56:6 78:7
 accepting 74:21
 accessed 34:13
 accessing 43:21
 accommodation 53:25
 accordance 26:13
 accounted 105:19,24
 accurate 33:18 80:3 113:18
 acknowledge 12:1
 across 64:13
 actual 38:8 41:13 81:3,16 90:2
 actuality 106:11
 actually 4:22 17:5 28:9 33:23 34:23 37:9 38:7,7,17 41:18,23 42:24 53:18 66:24 75:21,24 81:5 91:21 94:25 95:4 102:6
 add 29:10 58:20 59:14 61:17 62:21 95:20 115:12,19
 added 32:13
 addition 16:2 114:10 116:9
 additional 91:23
 address 7:7 53:7 67:1,14 91:8
 addressing 20:20 67:12
 adjourn 123:12
 adjustment 22:14
 administered 75:17
 Administrative 1:4 2:24 47:15 55:20
 admission 19:13 52:3 79:20 80:12 91:17 100:8,9 101:14
 admit 19:22 60:14 80:20 95:17 101:2,7
 admitted 6:3 19:16 49:9 52:7 91:20 93:6,10 96:6,6 101:17
 adopt 78:8
 adopted 37:8 55:12
 advertise 64:23 109:8
 advertised 57:19,20 109:6
 advertising 110:3,10
 affecting 67:6
 affordability 114:7,13
 afternoon 6:10,11 33:8,9 54:7,8 93:18,19 110:21,22 123:6
 aggregate 43:6
 agree 8:14 9:2 10:5,13,16,25 11:15 13:8 14:23 16:17,22,24 17:2,19 18:7 20:24 21:3 45:21 56:2 58:17,20 59:8,13,24 61:16,21 63:23 64:7,14 69:20 70:3,15 71:16 72:1,12,25 73:1,7,12 74:9 76:18,22 77:4 79:8 82:9 84:5,15 85:2 113:23
 agreed 64:24
 agrees 67:2 79:5
 ahead 15:22 44:17 48:24
 airline 59:19 60:3
 align 54:16 111:14 114:2
 allies 62:23

allocated 31:19
 alone 82:4
 already 38:21 39:5 64:24 79:3 95:21 101:13 105:4,9,24
 alternative 16:18 59:5,8 114:21
 alternatives 7:22 8:13 10:23 11:21
 Although 29:3
 amend 98:15,21
 amended 98:10 102:7
 amendment 99:10 101:22
 amendments 97:18,22 98:10,15 99:4,6 100:19,24
 among 54:16 73:10
 amount 10:7,20 21:19 37:8 40:12 57:12 109:14 115:25
 amounts 103:5
 analyses 21:24
 analysis 4:11 5:3,5,10,16 6:18 12:6,12 15:10 17:12 19:18 20:3,6,21 23:21,24 24:1 27:23 28:3 31:3 40:5 77:22 88:5 121:3
 analyzes 42:7
 Ann 2:19
 another 16:11 19:9 45:7 58:15 75:25 83:13 85:16 103:12 111:14 114:22 118:18,19 122:1
 answer 5:12 7:11,13,15 15:21 19:8 27:3,6 34:10 61:3,5 95:3 97:21 107:5 109:18 118:9 120:3
 answered 7:13 8:7 105:4 117:18
 answering 11:12 82:18
 answers 5:21
 anybody 75:23
 anyway 35:22 115:5
 apologies 1:14
 apologize 48:23 51:13 91:21 92:3 104:4
 apparently 91:22 108:21
 appear 69:10 99:9
 appearance 1:11
 appearances 1:8
 appears 4:22 15:20 41:18,25 57:23
 applied 32:2 38:23 39:2,14
 applies 31:5 105:24
 appreciate 55:25
 approach 18:14 25:23 67:21 96:20 97:12 120:4
 approached 63:10
 appropriate 11:17 12:12 15:22 31:11 44:13 96:1 104:20 122:1
 approximately 116:25
 Arbitration 30:23
 area 45:11 110:1 114:22 116:4,7
 argue 7:6
 arise 2:8
 ARPM 51:17,19 53:17 105:6 106:18
 arrangements 34:5
 arrive 23:12
 arrived 113:4
 articulated 7:21
 artificially 51:12
 ascending 111:18
 aside 74:12
 aspect 80:1
 assert 13:12 27:22
 assess 115:10
 assessed 104:12
 assessing 13:13 115:6

assigned 1:4
 assistance 96:23 114:11
 assists 104:12
 associated 14:11 30:4 45:22 57:9
 83:11,14 86:21 104:13 105:23
 assume 12:23 16:7,11 36:2 42:12
 60:21 69:21 70:23 71:25 79:1,4 82:
 22 118:7
 assumed 74:4
 assumes 28:22 43:10 69:11 75:8
 assuming 16:22,24 18:9 43:6 64:6
 69:7 70:9,12 74:22,23 76:15 82:2
 83:15 84:2 113:10 118:5,7
 assumption 28:25 35:15 39:9 69:
 20
 assumptions 22:15 23:9
 assure 8:11 75:11
 AT&T 21:8 23:18,20 30:17 62:25
 63:12 75:4,20 78:4 79:6 84:4 85:
 22 87:1,3,8,20 93:22 94:2,6 95:5,6,
 17 96:23,25 97:2,16,19 99:11 100:
 8,10 101:14,15
 AT&T's 78:9 87:23,25 88:1 90:17
 93:23
 attached 3:18,24 48:7,13 94:13,
 18 95:4
 attachment 90:24 91:2,23 92:2
 93:1,9 94:13,13
 attachments 92:14,15 94:18,21
 95:23
 attempt 101:10
 attempting 56:11
 attention 80:25
 attorney 99:7
 attract 59:12,18
 attractive 63:5,6
 augment 118:9
 avail 61:22,23,24 62:18
 available 6:5 16:9 22:19 23:17 28:
 18 52:9 56:20 57:15,17 64:24 65:3,
 12 108:13 109:8 114:7,11 123:1
 availed 91:10
 average 12:10,17,19 13:14,15 15:
 8,9,12 16:18 17:1,14,21 18:2,8 21:
 2,4 43:2,8 44:6,22 51:2 60:18 64:
 12,15,18 81:4,16 82:1 83:5 84:6,
 13,14,19 85:21 86:19 89:13,15
 105:6 107:2,9,12 108:3,14 115:11,
 13,17,17,18
 avoided 31:1
 aware 12:23 14:17 15:24 16:3,5
 24:19,24 46:16 54:25 60:22 62:11
 63:4,9 113:6,8,17,20
 away 14:22
 awhile 117:21

B

B-r-i-g-h-a-m 3:3
 back 19:25 47:6 52:24 99:1,2 102:
 20 103:11 104:5 105:21 108:24
 121:11
 backing 21:17 22:3
 band 33:24 116:3,3,5,7,13,13
 Banerjee 67:9,11 120:8,12
 Banerjee's 121:2
 banner 62:21
 base 58:11 87:8
 based 23:14 34:17 74:10 107:8,17
 109:12
 basic 9:1 30:9,9 36:1 56:16 111:2,
 4 113:23 114:8
 basically 13:2,12 21:23 42:10

basis 21:22 109:15 115:11
 bear 80:6
 becomes 10:14
 begin 2:13
 beginning 30:24 54:12 67:17 68:
 20 96:14 99:12 100:1 102:21 121:
 1
 begins 12:10 19:18 89:5
 behalf 3:7 47:24
 belief 12:15
 believe 5:23 8:4 14:7,10 17:17 20:
 23 24:8,11 33:16,19 35:6 37:9 42:
 17 43:1 44:15,16 49:20 54:24 55:6
 56:22 57:23 60:6 61:8 62:7 63:12,
 16 65:4,13 66:21,25 67:9,24 75:14
 77:6 81:20,24 83:7 84:19 87:2,19,
 22 90:12,23 100:20 107:5,25 109:
 17,23 113:25 114:5,9 117:5,20
 121:14
 believes 12:12 72:7
 below 20:11 32:9 42:24 43:4 76:9,
 13 77:11,13,20
 bench 111:10,13,19 112:7,9,13
 113:4 114:1,15,20
 benefit 82:14
 besides 43:22
 best 13:9 98:6 117:9 123:7,9
 better 34:4,10 56:8 68:3 71:8 79:9
 92:15 101:8
 between 9:5 10:6 16:25 22:6 28:
 11 74:2 76:25 107:19 112:5 118:
 12
 beyond 44:10 116:5
 bill 29:22 30:2,2,6,10,13,17,18,18
 35:22,24,24 97:18 99:6,8 100:10,
 11,18 111:10
 billed 62:14 84:14
 billing 5:11,14,15,17 24:2,3,8,11,
 12,17,19,25 25:9 26:16,18,22,24
 27:9,15 28:1,12,23 29:6,10,14,17,
 18,19 30:4,7,11 31:6 35:4,5,15,21
 36:1,10 37:11,15 38:2 58:15,24 59:
 9 70:14,22 74:3 79:12
 bit 8:13 13:19 17:11 24:18 31:25
 38:25 56:9 65:20 83:8 95:21
 blank 104:6,9,10 105:18
 block 6:20 31:15 73:24
 blocks 7:5 55:1 56:4 73:20
 bolded 66:3
 both 11:9,9 21:25 29:3 59:18 63:
 20 68:24 81:23 86:2 87:9,10,15 90:
 19 91:24 95:11 100:4 111:15 114:
 25 115:1
 bottom 4:12,22 7:21 21:15 102:11
 103:1,4 105:5,8
 box 70:10
 break 47:3 106:5 108:13,21,24
 brief 46:9
 briefly 53:2,6 69:10
 Brigham 1:19 2:13,15 3:3,6,12 4:
 21 5:17 6:4,10 7:10 8:8 11:11 15:2,
 24 18:23 26:10 33:8 36:16,25 39:
 24 40:14 45:21 46:14,21,24 47:1
 60:17 81:24
 broad 61:3
 broadly 64:23 109:6 110:2,10
 build 31:11
 building 6:20 7:5 31:15 43:22 55:
 1 56:4 73:20,24 91:11
 bundling 64:3
 business 10:17 11:2,16 13:22 14:8

56:20 57:5,16,17 59:22 60:4 61:1
 62:3,4 65:1,7 86:7 87:25 107:3,9,
 14,19,21 109:13 111:15 112:17
 119:14,15 121:15
 businesses 62:4
 buying 43:10 46:2

C

calculate 15:12 115:16,18
 calculated 51:1,8
 calculation 21:17 38:9 39:1 51:9
 calculations 51:22 108:7
 call 2:13 9:12 45:2 47:9 74:2 104:
 13,24 105:2 106:3 118:2,5,10,14
 119:1,8,9
 called 3:7 47:24 56:18 63:11 81:
 20 118:23
 callers 44:1
 calling 12:25 13:2,6,6,7 14:23,24
 57:21 63:20 88:4,9,11 104:15 105:
 16 106:2 107:3 109:7,8,10,18 115:
 17 116:4,5,7
 calls 2:15 5:3 20:16 22:9,16 23:3
 47:11 81:13,15 87:18 97:25 105:
 23 107:9,11 109:16,24
 came 22:22
 capacity 26:15
 car 1:21 117:5
 cards 59:19
 care 93:20
 carried 23:10,12 86:2,14
 carrier 10:5 11:13 16:19 20:25 24:
 13 26:21,24 27:14 28:19,23 36:3
 42:18,20,24 43:13,24 44:3,21 45:
 17,25 60:23 64:8,12,14 70:6,25 72:
 16,17,19 73:11,13 74:14,19,22 76:
 16,16 77:6,10,12 78:19,19 81:5 83:
 3,9,13,15 84:6 86:8,11,25 99:14
 103:9
 carrier's 86:7
 carriers 6:24 7:22 12:23 13:13 16:
 1 18:5 24:16 27:10 30:12 35:16,20
 37:16 46:15 58:18,25 59:16,17 60:
 18 70:4 77:21 78:13 81:12,14,24
 82:7,10,15 86:12 87:10
 carriers' 79:4
 carries 58:22 81:14 86:25
 carry 9:18 81:12 86:9
 carrying 74:2
 case 3:13 25:18 34:23 35:2 53:16,
 24 54:21 75:18 78:23 84:2 113:7
 122:18
 cases 8:24,24 9:4,23 42:23 43:2,11,
 24 46:14 59:20
 cast 112:15
 categories 105:13,25
 category 106:4 108:1 122:4
 caveat 56:7 58:21
 cease 92:17 93:3
 ceilings 99:24,25 100:3,4
 cent 16:14 32:9 35:7 37:8 40:8 56:
 19 74:18
 centers 113:12
 central 88:22 118:23
 cents 14:6,8 16:8,12,20 17:24 20:
 11 28:6,7,14,20 32:7,10 35:12,13
 57:6 60:25 61:9 63:7,11 69:8,8,15,
 22,24 70:3,4,10,12,12,14,20,21,21
 71:16,20 72:2,5,16,23 73:3,9,10
 74:7,14,20 75:4,7,21,23 79:3,11
 81:21 82:6 90:6 116:14
 certain 33:13 42:24 58:13 62:23

73:24 99:7 121:15
 Certainly 8:4 10:2 11:4,20 16:4
 22:8 25:2 30:12,16 33:24 37:15 42:
 11 45:24 46:18 50:8 65:14 96:10
 111:13 112:12,24 119:19
 cetera 99:15
 change 28:11 32:11,13,14 47:4 51:
 8 67:8 75:24 90:5,5 106:16
 changed 25:3
 changes 32:12 49:24 51:20 53:2,
 22 60:2 66:6 68:23 106:11
 changing 32:4 85:23 121:16,18
 characterize 27:18
 charge 26:16 27:9 32:10 45:1 63:
 16,18 71:20 75:3,6,18,24 76:12 77:
 10,13 82:10 83:24 84:9 86:20 104:
 20 106:15
 charged 82:11 84:3
 charges 21:6 42:19,21 64:9 69:22
 70:2,7 73:11 75:4,13 78:2 82:16
 85:9,17 86:4 103:6,12 104:7,11,12,
 14 105:19 106:17 116:10,11 122:7
 charging 18:10 77:11,20,23 84:9,
 11,24
 cheaper 29:3 36:7
 check 53:11,20 55:11 56:6 65:11
 108:13
 chief 87:24
 choice 11:17 21:7
 chooses 110:3
 chose 110:4 122:5
 circuit 122:2,6
 circumstance 76:8
 circumstances 66:4,5,10 71:15,
 18
 cite 87:22 89:21 117:10 121:1
 cited 98:16
 city 88:13
 claim 17:7
 clarification 11:6
 clarify 37:3 50:8 90:19 92:7
 classes 107:11
 cleaner 101:22
 clear 7:11 18:7 41:20 46:23 80:4
 92:21 120:2
 clearer 7:14
 clearly 79:14 98:21
 clears 71:5
 CLEC 46:4,5
 CLECs 27:9
 close 61:19,20 120:22
 closely 54:17
 closer 111:9,10 114:1
 collapse 116:13
 collection 24:2,3,8 26:17 28:2 29:
 10,14,17,19,20 30:5,7,11 31:6 35:5,
 6,16 36:2 37:11,15 70:14,22 79:12
 collections 5:11,14,15,18 24:12,
 13,17,20,25 25:9 26:18,22,25 27:9,
 15 28:12,23 29:6 74:3
 Colorado 17:7 19:3,20 40:19 41:1
 column 70:9 102:23 103:2,4,12,14,
 19 104:3,5 105:5,6,19
 combination 90:22
 combined 14:25 95:16
 come 63:9 64:4 85:19 108:24
 comes 22:1 37:4 61:7
 coming 22:20 90:6
 commences 99:18
 comment 95:20 112:12
 Commission 24:21,24 25:6,17 26:

<p>13 55:1,12,20 66:12 78:8 79:5 111:20 113:3,7 commit 108:13 common 14:23 55:5 Communications 25:8,19 company 31:19 55:5 61:10 72:9 76:14 77:17 79:13 110:2,4 112:1 113:22 company's 63:20 111:3 compare 12:17 23:3 37:21 compared 77:17 23:1 compares 74:18 comparing 89:18 comparison 17:13 compensate 84:4 competition 66:9 112:25 competitive 24:25 58:5,18 59:11, 15 63:25 64:1 75:16 competitors 58:18 71:25 compiled 102:11 complete 19:23 91:25 completed 119:9 completely 84:8 completing 104:13 compliance 108:16 component 106:15,16 116:2 118:12 composite 107:2,14,21 108:3,14, 18 computation 105:11,20 compute 107:4 computer 117:15,18 computers 116:25 120:18 121:5 concern 80:4,7 81:3 88:25 concerned 30:21 concerning 12:10 108:3 conclude 20:5 122:21 concludes 5:19 concluding 7:19 conclusion 25:3 85:20 87:18 97:25 concrete 112:15 condition 63:19 96:4 conditions 71:11 Confidential 2:8 13:24 49:22 50:16,21,23,24 51:1,6,7,18,20 55:14 91:2,4 94:12,21 95:1 102:16,17,21 105:14 conflicting 60:7 confronts 79:7 confused 38:10 confusing 80:21 95:21 confusion 93:1 95:21 106:13 connect 9:12 86:11 connecting 73:14,15 connection 8:21,25 9:4 88:13 connotation 58:22 consequence 66:16 conservative 38:25 39:8,13 consider 5:11 13:14 22:10 23:4 44:4,22,25 45:3 121:19,20 consideration 45:17 considered 8:2 54:13 74:10 75:10 76:4 101:1 considering 44:21 88:6 121:16 considers 71:12 consistent 31:14 consumer 118:8 consumers 62:9 116:18,22 consumers' 120:17 contacts 104:21</p>	<p>contain 54:21 99:4 contained 5:21 91:23 contains 17:20 30:2 continue 64:19 96:16 continuum 67:9 contribution 54:22 55:4 77:2 copies 91:9,12 92:13 93:21 101:23 copy 41:13,14,15 68:3 91:11 92:1 98:6 101:8,22 corner 70:11 corrected 20:9 38:11 39:24 40:7, 11 49:10 68:7 104:1 105:9 correcting 4:10 correction 4:4,15,16 49:4 50:7,9, 9 52:12 corrections 4:2 5:7,19,20 49:1,3 51:25 correctly 38:18 111:8 correlate 105:1 corresponding 111:5 costs 5:11 21:10,14,18 23:7 28:25 29:1,6,10,14,15,15,17,19 30:8,9,11, 13 31:15,19 32:1 34:13 35:5,16 36:6,10 38:2 39:6 44:22 45:18 54:17, 22 55:3,5 69:12 70:15,22 73:19 74:6,7,11,12,23,24 79:6,12 80:2,6 86:8,10,10,11,12,21,24 87:16 113:14, 18 couldn't 18:21 119:9 counsel 33:11 45:12 116:16 117:24 122:20 countervailing 60:11 66:23 counting 104:18 106:7 couple 33:10,11 36:21 106:25 COURT 47:5 50:19 cover 21:2,4,10,13 55:4 covering 29:16,17 covers 29:22 creates 109:15 credit 59:19 critical 8:6 80:1 criticism 20:14 30:20 criticize 23:25 critique 19:18 34:12 cross 1:5 2:6 6:5,8 32:21,23 33:6 35:14 36:23 44:13 52:9 53:12 54:5 92:17 93:4,16 102:4 110:19 cumulative 32:12,14 current 51:2 103:21 111:19 113:11 currently 96:15 116:3 customer 8:22 9:5,21,23 10:7 16:13 33:21 43:14 44:6,23 46:16 57:16 58:11,14 60:8 63:19 65:10,16 71:20,21,24 72:14,15,22,24 73:8,9, 15 74:13,23 76:10 77:8 81:23 85:3, 10,13,14,15 87:8,19,21 88:1,22 106:2 109:14,15,15,24 115:2,20 116:10 119:16 122:9 customer's 109:18 116:4 customers' 81:12,15 cut 5:13</p>	<p>dealing 31:15 78:24 deaveraged 114:3 December 107:8 decide 21:5,5,12 decided 12:2 23:23 decides 45:25 deciding 10:5 decision 10:8 25:2,6 55:21 66:17 110:5 declined 66:8 decrease 64:19 84:13 89:1,9 decreases 89:2 dedicated 9:5,6,11,13,14,19,24 10:12,14,18,22 11:18,24 33:14,22,25 34:2,9 43:17,25 45:6 46:2 83:4,10, 11,12,25 84:3,10,17 85:3,7,20 86:3, 21 88:8,17 deferred 100:20 defined 24:10 75:15 definitely 84:13 definition 61:3 defray 114:12 deleted 106:12,14,15,17 demand 60:8,11 65:21 66:16 67:6 demonstrate 12:3 denominator 85:23 dependent 22:5 76:19 depending 22:15 depends 30:19 deposit 107:4 deregulation 26:14,15 derived 17:14 18:8 30:22 115:15 describe 57:24 designated 94:7 designation 104:21 desire 112:4 detail 67:15 details 15:5,6 16:4 113:17 determine 29:18 36:9 67:5 determined 53:13 determining 7:19 8:2 12:16 41:4 develop 31:21 developed 17:16 22:23 developing 31:13,17 develops 30:7 differ 22:15 difference 22:2 28:11 35:13 38:15 76:25 different 13:11 15:13 30:3,8 31:22,23 32:3 41:12 43:19 45:4 49:12 58:24 59:17 69:17 80:16 86:16 87:4,20 90:1 98:23 109:19 112:9 differential 112:5 differently 60:6 difficult 60:5 67:7 DIRECT 3:10,16 9:12 44:12 48:2, 5 54:10,17,24 66:8 80:24 86:10 directed 56:8 direction 18:17 60:12 112:3 directly 62:1 78:18 87:25 disagree 84:8 disagreed 40:6 disagreement 73:5 discernible 66:19 discount 30:22,23 59:19 discuss 17:4 20:2 28:1 52:12 67:17,20 68:21,22 69:6,7 81:3 88:25 discussed 33:12 59:25 69:4 74:8 79:3 105:9 discussing 2:2 12:11 82:21 discussion 12:9 52:23 60:17,17</p>	<p>65:21,24 80:13,16,17 81:6 82:5,6 distance 59:15 65:4 71:3 77:8 81:25 84:11 86:7 118:1 119:1 distinction 56:24 distribution 22:5 DiTirro 89:7 DiTirro's 88:25 89:17,21 divided 107:11 dividing 105:12 115:14 division 75:25 86:15,18 docket 1:6 17:9 19:4 37:5 66:7,22 doctor 67:14 document 19:2 69:2 90:15,17,23 92:16 94:1,3,3,6,21 95:1 96:6 97:2, 18,22 98:1,9,19 99:3,5 100:23 documents 90:20 91:5 92:9 95:17 96:6 doing 15:10 24:17 111:9,12 dollar 16:13,23 111:4 dollars 59:21 75:24 111:5,5 done 21:25 23:16 50:4 53:23 86:16 99:19 101:14 108:11 double 104:18 106:7 down 38:1 69:8 90:6 106:18 draft 100:10 101:3 dramatically 121:6 drive 60:8,11 109:17 114:1 driven 69:7 driver 50:9 drivers 113:1 DS3 25:20 26:15,17 27:21 DS3s 34:9 July 3:8 47:25 during 13:8</p>
E			
			<p>each 13:10 32:13 111:5 112:9 114:23 118:11 earlier 37:1 58:10 59:2 65:7 81:20 97:7 110:11 119:11 EAS 116:7,9 easier 49:11 91:5,15 easily 112:12 economic 9:14 10:15,25 11:9,19 66:23 69:14 72:11 76:5,14 77:17 121:3 economical 122:1 economically 77:25 79:13 economics 67:14 effect 32:14 51:22 64:11 66:11,16, 21 67:4 82:19 83:5 85:21 96:17 efficient 113:11 efficiently 28:24 87:16 eight 28:7 either 8:17 9:6,8 14:25 30:14 84:12 87:20 100:21 104:14 108:5 112:19 121:23 elasticity 65:21 67:12 elects 99:14 clement 7:2,16,20 8:3 42:4 75:9 elements 15:13 55:1 78:11 117:25 118:3 119:11 eliminate 80:11 116:12 eliminated 4:18,20,25 5:6 elimination 5:2 end 5:9 8:22 9:5 10:17,17 33:1 43:14 44:23 45:25 46:16 74:23 77:8 79:12 84:9,11,25 118:11,11,11,21, 22 119:5 ending 100:1 ends 99:18 118:10 enough 34:6</p>
	D		
	<p>D,E 94:18 data 35:1 65:23 83:23 90:17,24 93:22,23 94:12 95:13,22 97:2,5 107:8 David 47:11,18,23 day 13:8 14:9 56:20 57:6 109:16 days 14:9 56:20 57:7 dead 100:11,18 deal 49:14</p>		

entered 25:6,18
 entirely 61:17 77:5 86:6
 entitled 97:18 99:6,12
 environment 27:2
 equal 16:25 18:10 73:3 77:24 78:10 79:5
 equation 86:19
 equivalent 17:21 33:15 34:1 56:3 78:10
 error 4:10
 errors 20:5,9
 especially 78:22 84:24 112:1
 essential 7:2,6,16,20 8:3,5,6 12:3 24:8,12,16 42:3,4,11,13 75:10 77:10
 essentially 22:23 38:15 58:2 76:18 77:2,19 85:23
 establish 15:18
 established 6:20 30:23 37:10 55:2,3,21 78:11,14
 establishing 54:13
 estimate 21:17 23:14
 estimates 113:10
 estimation 21:22
 et 99:14
 evaluating 44:3
 even 36:7 42:12,15,16 64:22 77:14 119:10
 evening 13:7 101:23 109:16 117:22
 event 56:1 82:1
 eventually 112:21
 everybody 123:5
 everyone 4:8 49:25
 everything 36:1 103:7
 evidence 12:2
 evidentiary 6:2
 evidently 41:11
 exact 10:20 40:12 87:23 117:10
 exactly 13:10 34:7 79:14 87:7 92:15 93:7
 examination 1:5 3:10 6:5,8 33:6 36:23 39:21 44:12,13 45:14 46:12 48:2 52:9 53:12 54:5 92:17 93:4,16 102:4 110:19 119:25
 examined 3:8 47:25
 example 30:8 31:22,24 42:23 46:5 61:4 69:5,6 72:3,6 76:3 79:24,25 80:3,11 81:24 84:9,24 106:1 112:17 119:12
 examples 67:17,19
 exceed 56:3
 exceeded 55:17 78:14
 exceeds 27:21
 Excellent 101:24
 Except 1:20 103:7
 exception 62:11
 exchange 9:1 29:24 30:9 36:1 45:25 103:8 111:2,4,16 116:4,5
 exchanged 29:7
 exchanges 112:25
 excuse 4:21 12:21 17:5 26:23 28:9 48:17 49:7 55:13 81:13 102:19 103:20 105:5
 excused 46:21,24,25
 Exempt 25:20
 exempted 24:20
 exempting 25:1
 Exemption 25:8
 Exhibit 3:15,22,24 4:4,13 5:16 6:13,25 7:4 17:25 18:17,25 19:7,13

20:1 36:25 37:19 39:11,25 40:14,22 41:6,12,19 48:5,11 49:4,5,8,12,14,16,23 50:7 51:4 53:3 54:10 65:24 67:19,24,25 68:1,4 69:3 70:9,11 79:1,20,21 80:8 90:10,12,16 91:18,22 93:20 96:12 102:7,10 103:21 105:14 106:21 120:8,11,14
 exhibits 1:12 3:12,18 4:3 5:22,25 26:2 38:12 48:7,13 49:2 50:25 52:3,7
 exist 16:3
 existing 26:16 37:16 113:11
 exists 56:23 57:3
 expect 34:19 59:21 63:24
 experience 21:23 42:22
 experienced 79:2
 expert 14:15 16:4 53:8 113:16
 explain 7:12 8:10 13:10 49:23 50:7,8 68:23 103:13
 explained 83:24
 explore 8:12 15:11 17:11 29:5 83:8
 expressed 58:4
 extended 116:5
 extensive 15:8
 extent 26:21 27:14 65:13,16 78:18 87:12,14 101:13 114:19
 extraordinarily 67:7
 extremely 58:14 61:19

F

facilities 9:19 10:19 33:22,25 34:3,9 43:17,22 45:6 46:2,2 83:4,19,25 84:3 85:21 86:3,3 87:5 88:8,17,22
 facility 9:5,7,13,14,21,23,24,24 10:12 83:10,11,12,25 84:4,10,12,18 85:3,8 88:3 119:17
 fact 7:7 12:22 22:24 24:14,17 31:24 36:3 42:22 65:21 66:5,23,24 72:19 73:2 81:21 82:21 87:24 115:21
 factor 30:22 31:7,23,23,25 32:2,4,5 38:8,21,21,23 39:2,3,5,14 66:12 69:14
 factors 8:1 31:12,17,21 32:2 38:16 54:13,16 60:10,11,15 67:8
 fair 9:25 12:7,18 22:17 28:6,24 29:25 57:16 58:6 59:6 61:25 69:18 70:1 75:13 86:22 113:13
 fairly 62:10
 fall 104:15 122:3
 familiar 15:6 24:22 55:7 118:19
 far 18:17 34:20 37:7 88:4
 fault 1:15
 fax 115:23
 FCC 113:15
 FCC's 113:6
 fee 14:17 15:1 16:9,13,23 17:1,2,20,24 18:9 57:9 60:25 62:13,14 63:1,8,14,16,17 64:10 85:7,9
 feel 112:1
 fees 16:1
 few 52:19 122:22,23
 figure 35:20 37:4 38:5,6 39:25 105:8,9,10 121:6
 figures 122:19
 figuring 80:2
 file 23:21 35:2
 filed 4:22 6:13 49:21 52:6
 filing 56:11 106:16 108:17
 finally 88:24
 financial 59:20

find 61:18 80:21 122:1
 fine 2:22 54:1 71:8,13
 finish 19:8
 finite 78:23
 first 1:22 3:7 8:14 13:21,23 20:14 29:21 30:24 40:21,25 41:8 47:24 53:1 60:20,22 62:12 63:24 69:5,19,20 70:2 83:8 85:1 93:21 98:24 104:15
 fit 109:17
 fits 24:12
 five 16:13,23 47:3,7
 fixed 115:12
 flat 83:19,25 84:3,9 85:7,9 114:25 115:7
 floor 17:16,18 20:16 22:24 28:11,13 29:12 32:7 35:12 40:1,8 42:8,14,25 43:4,4,9 75:12,14,14,17 78:14
 floors 99:22 100:3,5
 flowed 51:16
 focus 76:20
 follow 32:22 33:10 43:12 45:10 46:9 78:16 122:12
 followed 77:5
 following 1:8 35:14 78:5 97:21
 follows 3:8 47:25
 footnote 40:23,25 41:8,21 106:23,23 107:1
 forces 66:23 67:5
 foregoes 72:9
 foregoing 76:13
 forgetting 92:3
 form 37:10 65:5,6
 forms 64:5 71:2
 forth 79:23 97:23
 forward 101:5
 found 24:24 101:21
 four 38:18 121:8
 four-page 94:5
 fourth 105:5
 frame 108:15
 frank 115:4
 free 7:12 80:22
 Friday 2:3 122:16
 front 3:15,21 40:15 48:4,10 93:21 102:8
 full 96:1
 function 8:15 12:4 24:9 72:20
 functioning 73:14
 functions 73:22 74:3,3,4
 fundamental 73:5
 further 32:18 36:16 45:9 46:7,8,19,20 90:9 119:20 122:11
 future 110:13 112:22

G

gain 82:15 121:7
 gauge 66:11
 gave 71:9,11
 general 34:17
 Generally 9:21 16:5 30:2 57:19 73:22 82:11,13 113:8,17
 generate 17:1 122:18
 gets 44:5
 Getting 105:12
 give 1:11 15:8,19 16:6 48:18 68:3,7 97:20 120:3
 given 67:5 92:25 96:4 113:11 114:14
 goal 111:22,25
 goals 114:23

goods 74:7,15
 got 5:13 38:23 41:9 107:16 118:14
 Grand 102:11
 Great 23:25 123:3
 greater 89:9 90:3
 greatly 30:25
 Green 63:11 81:21 82:5,6
 gross 71:16 74:18,19
 group 61:22 112:23,23 116:2,2
 groups 31:22
 guess 13:18 35:12 38:10 55:19 107:13,23
 guideline 112:13 114:14

H

half 70:8
 halfway 38:1
 hand 2:23 31:10 47:14 49:10,15,16 72:21
 handed 18:24 41:12 69:3 97:1,17
 handing 26:6 120:7
 handled 22:16,17
 hands 75:25
 handy 37:22
 happen 83:22 118:15
 happened 7:9
 happens 76:19
 hard 24:15 82:18
 hate 107:23
 he'll 92:18
 headings 94:22
 hear 120:10
 heard 48:22 80:16 98:20,24
 hearing 1:5 46:24,25 53:23 91:20 117:6
 held 52:23
 help 106:9 114:11
 helpful 44:16 52:17 80:21
 herein 95:23
 high 21:6 26:15 33:24 59:9,9 112:25 115:24 121:20,23
 higher 10:15 16:20 17:1 31:25 40:2 43:25 58:25 77:24 88:1,12
 highest 112:22
 highlighted 66:3
 hold 32:25 38:14
 holding 92:8 107:2 108:14,18
 home 61:18 116:5,23 117:15,18
 honest 89:20
 Honor 5:24 15:7 18:16 25:24 26:1 36:13,15,19 46:23 49:7,8 51:13 52:3 53:10 55:23 67:22 68:2,3 79:22 91:8,22 92:11 93:14 95:16 96:8,20,22 97:12,15 98:3,18 100:7,9,14 101:14,18,19,21 120:5
 hooked 62:4,9 116:18 117:15
 hope 95:3
 Hopefully 53:22
 hoping 4:7
 hours 14:9 56:20 57:6
 House 97:18 99:6,8
 households 121:4
 housekeeping 91:15
 However 7:7 8:5 18:1 21:14 30:16 32:24 42:7 45:24 49:3,24 53:15
 hundred 59:21 71:1 76:16 77:7,9 121:7
 hypothetical 16:6,10,14 60:20 63:23 64:6 67:17 69:5,7,16 70:1,12,17,19,24 72:3,5,12 74:8,16,21 77:14 78:8 80:5 82:21,23 114:25
 hypothetically 14:21 72:5

hypotheticals 15:17,22 68:21,22
69:4 78:25

I

identical 106:10
identification 18:24 26:2 67:25
90:13,16
identified 32:13
identifies 58:12
identify 20:5 50:23 90:10
II 1:6
ILEC 102:12 103:8 113:10
illustrate 80:19
illustrated 69:4
illustrates 67:19 80:15
illustrating 80:13
illustrative 71:10 79:21
imagine 115:4
immediately 61:7 63:9
impact 4:10 22:3,4,5,14 28:1,5 32:
4 51:20,21 52:21 53:12,15,18 68:
23 84:5
important 12:17 57:25 58:9,14,19,
21,23 92:4 112:24
imposed 66:12
improper 58:22
imputation 5:10,16 6:18 7:8 12:
12 15:4,10 17:12,16,18 19:18 20:2,
10,16 21:24 22:24 23:15,21 27:22
31:3 34:20 35:2,4 40:5 42:13,14,
25 43:4,9 75:5 88:5 97:22
impute 6:23 7:5 75:8 81:17
imputed 6:20 12:18 40:1 42:13
75:12
imputing 75:11
inadvertent 51:14
inbound 115:23
Inc 25:8
incented 58:25
incentive 59:20 77:18 79:10,15
incentives 59:18 60:6
include 16:1 22:24 23:8 29:11,14
30:9 39:24 55:4 86:2,4,8 95:25
103:5
included 5:15 20:15,20 22:1,1 24:
1,7 28:3 30:11 39:5 51:9,11 95:23
104:14,25 106:3 113:14
includes 42:25 56:19 103:7 111:
17
including 22:4 45:5 64:14 70:22
83:13 86:21
inclusion 21:18 95:24
inconsistent 17:8
incorporate 86:8
incorporated 27:22
incorrect 89:7
increase 85:24 111:4
increased 66:8 112:20
increases 113:23
incur 74:15 86:9 87:16 104:24
incurring 73:2 82:16
incurs 35:18 55:5 70:13,14 71:23
72:2 73:18,19 76:22,24,25 81:5 83:
10 116:10
independent 5:3 20:15 21:13,18,
25 22:10,11,11,25,25 23:4,8 34:14
51:9,10 103:8
independents 20:21 21:6,11 22:4,
7,16 23:11
index 75:15
indicated 15:6 35:7,15 116:17
indulgence 53:7,11

inflated 51:12
information 22:19 23:17 50:23
65:15
informational 51:23
Initially 6:16 54:9
initiated 66:6
inquiry 117:19
insert 38:6
insist 24:2
installation 10:11
instance 79:9 115:12,13 117:16
instead 5:13 24:2,7 35:5 72:10 73:
8 74:14 78:25 116:11
intends 58:3
inter 30:14
interacts 85:17
interconnection 31:24 32:3 38:
20 39:3,5,15
interest 58:4 76:10
interexchange 6:23 7:22 10:5 11:
13 12:23 13:13 16:1,19 18:5 20:25
26:21,23 27:10,14 28:19,22 30:12
33:15,23 34:2 35:16,20 36:2 42:18,
20,23 43:13,24 44:3,20 45:17 46:
14 58:18 60:18,23 64:8 70:4 72:15,
17,24 73:11 74:14,19 76:23 77:21
78:13 79:4 81:5,12,14 82:7,10,15
83:3,9
interLATA 29:4 81:13,15
internet 61:8,11,14,24 62:5,6,9,18
63:1 65:3,8 116:19,22,23 117:2,12,
14,15,17,19 119:1 120:18 121:5
interoffice 74:1 118:3,12
interrogatory 8:7
interstate 63:17,20 81:10,13,15,
22 82:2,10,16
intra 9:17 29:4
intracompany 70:21
intraLATA 9:18,18 10:11 15:14
22:6 29:24 33:23 35:21 36:4 58:5
60:24 61:2,3 71:20,24 72:14,22 78:
12 79:2 81:6,13,15,17 82:12,22 83:
3,9 84:17 85:3,12 87:3 88:4 89:10,
14 121:21
intrastate 30:14 42:18 63:17,20
81:11,22 82:3,4,12
intrastate/interstate 82:18
introduces 64:1
introducing 56:18
investigate 65:10,14
involve 109:13 119:17
involved 14:17
isn't 8:22 9:7,11 15:21 20:21 22:3,
5,17 26:12,25 27:23 28:5,9,20 29:
5,8,25,25 45:23 53:24 54:22 56:5
64:19 73:4 74:20 78:4,15 83:11 85:
15 86:22 90:3 91:22 94:9
issue 42:12 88:5 100:20 120:22
issues 11:10 114:13
itself 9:17 17:15 62:24 75:3,6,9,13,
24 76:10,24 79:2,7,9 81:18 86:11
98:2,19 115:20
IXC 21:8 22:6 36:9 68:24 70:13,
14 73:8 74:13 122:1,5
IXC's 9:6 71:16
IXCs 8:16 77:4 82:23 88:6

J

January 25:18
job 113:19
joint 55:5
JONES 123:1,4,9

Judge 1:4,14 2:24 33:4 47:15
judicial 25:6,17
justify 10:11 25:1

K

keep 91:6 92:3
key 113:1
keyed 98:13
kicks 77:22
kind 11:9 15:1,21 59:10,22 63:25
64:11 110:1 111:25 117:20 121:25
kinds 60:3
knowing 82:17
knowledge 34:6,18 110:12
knows 92:14

L

laid 70:19 86:19
large 59:24 121:21,23
Larry 49:17
Last 3:3 5:12 30:20 39:23 45:11
47:19 66:3 100:20
later 8:10 41:21 67:10 71:4
latitude 15:20
latter 121:6
Law 1:4 2:24 42:20 47:15 101:3
112:2
Lawrence 1:10
leads 43:1
least 34:22 79:25 80:1 100:24 111:
12 112:2 114:1
leave 2:10 35:7 50:3 85:25 92:12
118:15,22
leaves 31:7
Lee 19:3
left 28:13
legal 97:25 110:7
legislature 100:22
less 23:7 28:5 32:9 77:14
lesser 114:6
level 20:10 21:2,10 58:15 78:15
111:25 112:5,19
levels 58:24
lift 33:24
lighter 88:14
likely 58:17,19 59:10 60:1
limited 61:22 101:6
line 4:7,8,16,19,24 5:4,5 9:9,10,24
21:19 28:16 30:25 35:14 37:1 38:6
39:11 45:11 54:12 83:16 88:3,22
89:4,5 96:14 99:13,18,18 100:1,2
103:10 104:15 115:20
lines 4:17,25 27:25 37:19 41:7,24,
25 57:24 66:2 75:1 80:25 81:8 120:
16
list 27:8,8,17,20
listed 17:24 65:4
lists 65:12
little 8:13 13:19 17:11 24:18 38:
10 56:9 65:20,22 83:8 112:23
local 29:7,24 30:18 73:25,25 103:6,
8 111:15 116:4 118:11,18,20,23
119:6,7,17,17
location 118:20
long 29:15 52:14,16 59:15 65:4 71:
2 77:7,23 78:13 79:11 81:25 84:11
86:7 118:1,25
longer 114:20
look 18:2,5 22:24 35:1,23 36:3 41:
7,22 70:8 89:25
looked 34:18 90:4 117:21
looking 19:20 30:24 37:21 41:10

43:2 69:9,14 107:10,13
looks 50:4 123:5
loop 8:25 114:3 118:24 119:7,10,
17
loops 111:17
loses 78:19
loss 78:12
lost 78:21
lot 11:22 15:6 24:14,16 30:2 60:16,
17 109:1
low 14:25 60:24
lower 40:2,3,8 64:18 81:5,11,16
82:3,3,11,14,16 86:17 104:15 114:
20
lowering 83:5
lowest 112:23

M

machine 91:11 115:23
made 9:4 22:15 25:2 50:7 53:3 58:
2 91:9 101:23 108:7 113:22
magnitude 89:9
mailed 109:12
mailings 109:12,19,21,23
main 18:1 111:9
major 8:4
majority 10:16 11:1,16
makeup 87:19,21
managed 49:21
management 38:20
Manifold 1:9 36:18,19 50:15 94:
15 110:17,20 119:18,20 120:3,10,
13,24
manner 77:25
many 8:24 24:14 43:1,10 59:16,17
60:7 79:15 109:10
margin 28:10,18,22 35:7 54:22 71:
16 74:18,19 76:13,20 77:3,15 78:
13,21,21 79:17 82:15
margins 68:24,24
Mark 1:20 26:2 68:11 111:10,13,
19 112:7,9,13 113:4 114:1,15,20
marked 18:24 49:11 67:25 90:12,
15 92:12 94:1,6,21 97:16,19
market 14:24 15:25 25:3 59:16,17
61:21 72:1 81:25 110:6
marketed 109:10
marketing 31:12,17,18,21 32:5
37:20 38:21 39:2 57:19,25 58:9,11
74:3
marketplace 60:7 66:25 75:16,19
markup 55:4,7,10,11,22
mask 66:24
match 61:15
matter 1:4,6 25:7,19 91:14
matters 2:2,8 33:11
MCI 63:12
McIntyre 56:7
mean 18:1 53:4 70:17,19 75:20 76:
21 79:19 80:16,19 90:1 103:13
117:14
meaning 101:4
means 8:25 10:12 11:2 45:4,5,18,
18,22 82:24
meant 37:17 38:6 58:8 59:3
measure 58:15
measured 113:24 114:2,6,16 115:
1,6,19
mentioned 55:18 81:24 116:16
messages 36:8 104:22
meter 117:7
Microsoft 62:20,24

might 14:19 36:12 59:5 96:20 97:12 98:3 100:14 114:7 117:18 121:15 122:1 123:6
migrate 64:17
Mike 1:8
miles 59:19 60:3
mind 16:15 32:25 61:5,7 63:9 123:5
mine 68:4
minimum 14:11 15:1 16:10 17:20 18:9 57:12 60:25 62:13,16 63:8,14 64:10 75:18
miuimum 16:2
minus 102:12
minute 12:10,17,19 13:3,14,15,24,25 14:2,5,6,24,25 15:8,9,12 16:2,8,12,12,18,21,25 17:2,14,22 18:2,8,10 20:11 37:21 43:2,8 51:2 52:12,14,16 56:19 57:6 60:18,25 61:9 63:7 64:8,10,12,16,18 69:23 70:3 72:7,23 74:5 75:4 76:2,3,4,15 78:19,21 81:4,16 82:2 83:5 84:21 85:17,22 86:20 90:2 105:1,6 106:1 115:8
minutes 22:6 47:4,7 51:10,11 79:15 85:14,14,24 86:9,14,24 87:25 103:18 104:11,13,14,17,18 105:14,23 106:3,4,6 107:10,17,19,25 115:14 122:22,23
misspoke 12:21
mistake 51:14
model 113:6,8,9,15,16
modified 80:10
modify 80:10
moment 2:12 14:22 16:7 28:15 32:16 36:13 68:11 69:21 97:20 98:12 119:18
momentarily 1:21
Montana 94:23
month 115:18
monthly 14:11,17 15:1,1 16:1,9,9,13 17:1,2,20,20,24 18:9,9 57:9 60:25 62:13,14 63:1,8,14,16 64:10 109:15 115:7,12
morning 68:8 122:18
most 37:12 62:4 92:4
mostly 13:8
MOU 104:21
MOUs 104:6 105:19
move 12:9 19:12 30:20 33:22 52:3 67:8 79:18,20 80:12 91:17 100:7 101:14 111:9 112:2 114:15
moved 114:19
moves 64:9
moving 2:2 64:10 111:12,23
MTS 104:14
much 32:15 46:21 47:2 91:15
must 21:1 42:18 43:4 75:3 78:22 81:17 118:8
myself 61:18

N

name 1:3 3:1,2,3 47:17,18,19 61:7
namely 63:7
near 111:25 112:14 115:5
nearly 121:5,7
Nebraska 94:22
necessarily 50:9,12 58:7 80:6 88:23 112:15
necessary 12:6 73:20 96:5
need 18:2,16 21:13 44:25 53:21 54:16 62:1
needed 118:1

needs 50:20 80:4 112:15 122:18
Net 61:7,10,18 62:11,12,18,21,23 63:4
network 8:18,19 9:7,8,22 10:3 54:25 61:12,16,25 62:20 73:15 74:7 76:17 85:18 87:24 88:21 118:1,21
new 93:1,1,9
next 13:18 47:9
non-legal 99:21,23
non-proprietary 41:14
non-supplemental 95:8
none 6:2 91:20
normally 29:9 91:4
note 49:22 89:12 91:1 102:16 106:9
noted 103:5
nothing 32:18 36:16 45:9 46:7,19 74:22 101:19 110:2
notice 25:6,13,17,22 26:8 55:21
number 5:4 13:24 18:17 19:4 25:10,11,17 26:11 35:4 38:18,19,22 39:8,8,10 49:12 50:10,12,16,21 51:2,3,5,6,8,12 55:14,17,22 56:13 82:20 86:16 89:4 90:18 103:1,4,7 105:11,12,14 107:10,11,16 108:4 117:1,3
numbering 96:23
numbers 4:8 48:18 51:22,23 70:20 80:5 107:22 108:4,8,10,11,21 120:20
numerator 85:23 86:13

O

OAR 26:13
object 11:5 15:3 44:9 70:16 79:22 95:24 97:24 100:9
objected 98:19
objection 2:3 101:15,16
objections 6:2 19:14 52:6 91:19 95:19 120:22
objective 111:13,14
obligation 112:1
obtain 16:14 33:21
obtains 44:23
obviously 32:14 40:12 58:24 69:11 107:17
occasion 46:16
occur 12:13
occurred 66:7
October 25:7
offer 5:25 59:17 63:5 75:18 80:10 101:1 106:8 109:25
offered 10:21 15:25 16:12 59:20,22 109:5
offering 60:24 93:11
offerings 34:7 56:11
offers 21:1
office 74:1 88:22 118:11,18,23 119:7 121:3
offices 74:2 118:13
official 25:12,21 26:8 41:13
offset 66:24
offsets 82:14
offsetting 82:19
often 118:23
omit 79:25
Once 74:21 76:1
one 3:24 8:1,19 14:23 16:10 19:9 20:8,9 32:11,16 45:11 46:9 49:4,14,15,21 52:6,12 60:10,14 61:7 63:9 68:8 69:17 75:25 79:25 83:12 88:6 94:2 111:4 112:6 113:1 114:15

115:16,17 116:14 119:10 122:5
one-page 97:2
ones 43:5
only 4:4 10:10 15:10 23:4 42:9 66:3 69:9 72:2 77:19 79:21 85:11,16,19 86:4
ooOoo 3:5 6:7 33:5 36:22 39:20 45:13 46:11 47:22 54:4 93:15 102:3 110:18 119:24
operating 87:15
operation 26:17
operator 103:5,11 104:6,11,12,19,21,23 105:18,24 106:15,17
opinion 7:18 42:3,6,10 99:21,23
opportunity 53:24 69:12 72:9,13 74:11,12,24 76:4,5 77:22 80:2
opposed 22:16 28:2 60:2 61:11 74:11 79:16
opt 77:13
option 27:10,11,12
order 2:10 8:20 23:12 25:10,11,17 26:6,11,13 31:14 34:8 37:8 40:16 50:1,3 55:22 59:12 92:14
ordering 26:12
orders 37:13
OREGON 1:1 8:25 10:18,22 21:1 24:11 29:8 33:15 35:1 62:7,8,8 66:6,12 78:22 96:15 98:17 114:11 116:17,18 117:4 120:17 121:3
Oregonians 116:25 117:11
original 50:25 51:17
originate 8:21 78:20
originated 5:3 20:16 84:12
originating 8:15 21:25 22:10,11,12,25 23:1,4,8 34:14 84:20 85:10 118:10
ORS 97:9,23 98:15 99:4
other 5:7 9:4 10:23,23 11:18,21 15:18 31:10 34:18,18 35:16,21 36:4 39:1,8 43:5,21,21 45:18,18,23 46:4 51:24 57:20 58:25 60:3,10,12,23 62:12,24 63:4,5 66:6 67:5 71:2 72:21 77:8 78:22 80:4 86:12 95:22 109:6,7 112:8 114:22,23 115:24,24 117:14 118:3
otherwise 59:5 73:10
ourselves 91:11
out 15:25 21:18 22:1,3 29:22 30:10,13 31:5 35:22,23,24 37:4 38:22 39:3,4,14 49:10,16 62:7 65:23 68:18 70:20 83:16 86:19 92:14 106:5 109:12 117:21 118:20 122:21 123:9
outbound 109:24 115:22
outcome 115:5
over 2:19 19:9 22:2 33:22 61:15,23 62:8 64:20 85:20 86:2 88:20 92:18 117:1,10 118:23
Overlaying 86:13
overstate 30:25
owe 29:23
own 13:13 21:4 24:17 29:13,17,18 46:1 61:20 83:12 121:4
owner 62:25

P

page 4:5,7,9,12,15,16 5:9 6:16 7:21 11:25 12:10,22 13:12 17:4,5,6 19:4,19 20:2 21:15,16 26:11 27:25 28:16 30:21,24 35:9 36:25 37:19,24 38:1,11 40:22 41:6,18,18,21,22,24,25 49:22 51:1,21 54:9 57:23 58:

1 65:24 66:1 67:17 68:21 69:6,24 75:1,2 80:25 81:2 87:23 88:24 96:12,13 99:11 103:10 104:16 106:23,23 109:2 120:8,13,14,14 121:1,2
pages 49:20 68:22 94:14
pagination 41:11
paid 16:13 20:21 21:10 22:4 45:1 86:12 115:13
paper 47:4 91:3,5,9,12 92:22 94:25
par 35:17
paragraph 26:12
paraphrase 33:18
Pardon 25:14 50:11
parking 1:21
part 8:4 9:1,7 41:8 50:17 51:15 62:25 63:25 92:5 95:4,5
particular 17:18 41:23 53:7 59:16 70:10 87:20
parties 51:14 101:23
pass 42:14 100:11
past 63:10 108:11
path 119:8
patience 96:9
pattern 109:18
patterns 13:6 115:21
pay 6:24 27:15,19 46:17 63:1 70:4 75:21,23 76:23 79:6 83:5,19 84:20 85:4,8,9,16,22 88:6 122:6
paying 46:5 77:1
pays 26:24 42:19 84:6 85:7,13 115:20
peak 13:6
pennies 90:6
penny 28:5
people 2:9 114:7 117:16,18
per 12:10,17,19 13:3,14,15,24,25 14:1,5,6,24,25 15:8,9,12 16:2,8,12,12,18,20,25 17:1,14,21 18:2,8,10 20:11 37:20 43:2,8 51:2 56:19 57:6 60:18 64:8,9,12,15,18 69:22 70:3 72:23 75:4 81:4,16 82:2 83:5 85:21 86:20 90:2 105:6 115:7,8
percent 21:19 22:2,20,22 23:7 30:25 31:2,4,7 34:19,22 55:9,18 62:8 71:1 76:16 77:7,9 87:25 89:13,15 107:19,21,21 116:17,18,25 117:1,3,11 121:4,5,7,8
percentage 10:22 55:7 62:10 89:19 90:1,5 107:3,20
percentages 89:22,24
perception 7:21 8:10
performed 6:19 21:24 36:9
performs 8:16
perhaps 50:23 71:7 117:7
person 92:4 104:23,23 106:3,3
perspective 10:25 11:13
Petition 25:8,19
Phase 1:6
Phone 61:8,10,18 62:11,12,19,21,23 63:4
phrase 71:8
phrased 107:6
pick 39:23
piece 31:6
pitch 58:3
pitched 59:4
place 1:5 96:15,16 98:17
places 95:11 117:16
plan 13:10,20 14:5,12,23,24 16:8,11,20,23,25 17:2,15,18 18:8,11 56:

18,22 57:2,10,13,17,18,21 58:3,10,
13 59:4,11,23 60:1 63:5,6,11,11
64:1,9,11,22,22,23 65:1,6,17 67:9
81:20,21,22 82:6,8 106:2 109:25
110:10,11,12 113:2 114:11 121:13,
14
planning 109:17
plans 12:25 13:2,5,16 15:2,5,25
16:3,25 42:24 56:10,13,16 57:20
60:3,19 63:10,20 64:13,18 81:23
88:4,9,11,11,13,15 104:15 105:16
109:7,8,10 110:3 114:10
please 1:11 2:23,25 15:22 25:25
32:16 36:14 47:10,16 50:3,6 92:2
97:14 99:17 100:15 120:25
plug 117:7
plus 34:8
point 9:6 18:1,6,13 19:12 25:5 39:
23 52:8 55:20 57:2 79:19 80:21 84:
19 92:18 93:9 95:18 112:22 117:
13
points 20:8 40:5,7,11
portion 83:4
portions 8:11 117:25
Portland 91:10
pose 69:16
position 17:8
possibilities 65:11
possible 79:16 112:21
possibly 122:22
postage 35:25
posted 1:6
potential 100:24
precise 50:12
precisely 61:19 75:4
predatorily 43:7
preface 59:15
prefer 32:24 49:10,13
prefiled 3:12 5:21 6:1 48:4 53:16
120:9
preliminary 2:2
premarked 120:8
prepared 15:16,21 53:13 67:19
110:23
presence 9:6
present 60:23 90:9 102:24,25 103:
12,14 104:25 106:9
presented 17:7 90:15
pressures 60:7
presume 87:7
presumption 86:23
prevent 75:15
prevents 110:2
previous 4:9
previously 53:17 72:6
priced 54:24
prices 20:25 21:1 35:6 44:4 54:17
55:3 56:3 69:11 78:17 79:14 81:11,
11 82:10,11 86:17 111:13 112:2,
14,25
pricing 43:3,5,7,8 44:21 54:14 77:
24 111:15,16,17 112:16 113:2 119:
10
prime 88:12
principal 8:1 67:11
principally 60:2
prior 53:23
private 9:9,10,24 83:16 88:3,21
probably 11:1,23 13:9 35:19,20,
21 39:7 58:21
problem 51:16 92:12

problems 114:8
proceed 53:14
proceeding 6:19 12:2 13:22 20:
20 31:16 32:6 56:19 57:5 78:3,4,9
113:3
processing 36:8
produce 12:2 108:8,12
produced 108:9
product 31:22 34:7 38:20 81:25
products 18:5
profit 76:20 77:3,4
profitability 13:14
prohibition 110:7
proper 15:10
properly 42:14 75:17,18
proportion 22:16,17 23:10,11 88:
2
proposal 89:8 111:3,3 113:22,25
116:12,13
proposals 54:14
propose 97:22
proposed 13:21 51:17 52:13 78:4
80:10 89:1,9,14 97:18 98:14 99:4,
6 100:10,19 101:22 106:10 113:2
proposes 32:10 78:2
proposing 14:1,4 20:11 54:21 56:
2,25 89:12 106:11
proprietary 41:10,14
Protections 96:14 98:16 100:25
protective 2:9 50:1,3
protocol 18:21 61:11
provide 9:14,17 10:21 12:24 13:3
24:13 27:12 33:14 55:23 60:24 65:
17 71:23 72:4,20 73:21,23 76:22,
24 77:7 87:1,3,17 108:9 109:19
provided 5:16 24:9 86:11 88:20,
21
provider 11:6,7,7 45:7 46:4 58:5
59:6 61:8 62:18 73:14 79:10
providers 10:24 43:21 59:8 61:2
62:24 63:5 64:1 121:16,18
provides 9:20 29:7 31:20 61:10
70:5 71:21 83:3
providing 7:17 29:13 33:20 36:3
42:5 46:1 63:6 72:14,21 73:18,19
76:10 82:23
provision 9:17 28:23 79:2 84:16
85:12 112:6
provisioning 15:14 45:22 71:2 73:
3 85:20
provisions 83:9 87:4,8 98:15
proxy 113:9
public 61:11,16,25
published 65:2,5
PUC 1:9 37:8
purchase 26:22 27:11,15 33:24
83:16 84:16 87:9
purchased 83:13
purchases 72:24 83:15
purchasing 10:1 42:4 45:6,7 46:4
71:1
purport 99:3
purports 79:23 98:21
purpose 101:1,6
purposes 26:2 44:4 64:6 67:18 71:
25 77:13 80:12
pursuant 65:17 111:10
pursue 108:23
put 30:17 91:24 96:16 101:5
putting 74:12

Q

quality 61:14,15,19,20
question 4:10,12 5:10 7:11,13,15
11:12,14 15:21 28:10 44:19 56:8
61:6 64:16 67:4 71:6,25 77:5 78:5
89:5 97:21,25 98:12,20,24 102:21
107:5 108:2,14 110:8 114:24 120:
2
questioning 45:12,19 89:24
questions 5:21 8:9 19:8 33:11,13
35:4 36:19 39:17 106:25 109:2
116:15 117:24 119:20 121:12 122:
11
quickly 108:12
quite 31:25 91:22 114:23 120:10
quote 40:25 41:10,17,21 75:10
quoted 41:17,23
Qwest's 6:18 9:7,8 11:20 12:15
13:19 24:23 29:1 31:18 33:14 43:
22 45:7 59:11 61:20 65:2,11 68:24
76:17 83:2,6,16,23 85:11,17 88:2,
20 89:8 93:21 95:5,12 97:2 116:13

R

raise 2:22 47:14
range 115:21
rate 12:17 13:14,24,25 14:3,5,15,
24,25 15:8 16:2,8,12,14,24 26:24
35:11 37:10,13 41:17 51:2 56:19
57:5 60:24 63:5 64:8 75:13 77:11
78:2 81:4,16,17 82:2 83:5,19,25
84:3,6,14,14 90:2 112:6 114:2,3,6,
6,8,16,19,21,25 115:1,6,8,10,12,13,
19,19 116:2,2
rates 4:17,19,25 5:5,11 6:20,23 13:
3 20:15,20 21:9 22:4 26:17 29:23
30:15 31:13,15 35:6 42:15,16,18,
21 43:1,3 54:20 56:2,15 59:19 76:
13,21 77:20 78:10,14 79:11 82:2
85:4 89:1,10,14 96:16 111:6,10,23
112:9,17,18 114:15,16
rather 5:11 7:5 11:23
rational 77:25 79:13
raw 90:5
re-offering 93:10
reach 7:23 45:25 69:14 74:23 87:
19
read 4:19 5:2 97:7,20 98:11 99:17,
20 120:20
reading 100:2
ready 110:25 111:1
realize 18:20
really 8:20 14:15 15:4,11 33:10
34:5 38:17,19 39:4 42:12 76:9 104:
25 110:2
reason 24:6 38:8 51:7 87:2 91:10
111:9
reasonable 59:7 69:20 70:11,17,
19,24 71:3,12
reasons 79:23 111:12 115:24
rebuttal 3:21 4:5 6:13 12:1 19:25
35:10 40:22 48:10 57:23 65:25 67:
18 80:25 87:22 96:11 97:6 114:5,
10
recall 45:19 55:9 63:12 82:24 83:
1 84:1 87:23 89:20 116:1,19,20,21
117:10
recalled 82:5
receive 13:15 16:19 60:19 72:16
73:10 75:22 82:7 88:8,9 115:23
receives 64:12 73:9 74:13,19
receiving 72:22 77:3,14
recent 83:23

Recess 47:8 123:13
recognize 19:2 90:16 91:1 95:12
recollection 116:24 117:9 120:16,
19 121:10
recommend 20:10 32:6
recommendation 78:9
record 3:1 7:11,14 19:23 26:3,9
41:20 47:6,17 52:15,22,23,25 91:
24 92:8,21 95:25 120:20
recover 29:23 30:13,16 36:5
recovered 29:6 31:19
recovers 30:5
recovery 35:25
RECROSS 45:14
recurring 115:19
REDIRECT 39:21 44:14 46:12
119:25
reduce 5:4 13:22 20:10 32:6 57:5
67:3 89:12
reduced 35:12 64:9 78:18 84:21
89:14 106:18,19 112:18,18
reduces 64:8,15,15 89:8
reducing 56:13,15 64:11 85:21 89:
23
reduction 21:19 22:20,22 34:19
90:2,2,4
reductions 89:18,18,25
refer 89:4 120:15
reference 12:22 17:6 19:4 80:11
95:22 97:9
referenced 41:8 59:2 66:5 82:20
90:24 95:7,11
references 93:22
referencing 39:25
referred 55:2 58:9 114:6
referring 81:8 89:18
refers 100:25
reflect 38:11 69:10 75:17 104:17
113:1 123:11
reflected 27:16 30:6 66:2 69:12,
13 74:6,7 81:6
reflecting 79:1
reflects 70:11
refresh 120:19
refreshes 120:16
regarding 33:14 120:17
regulation 24:20 25:1,9,20
Reichman 1:10 2:15 3:11 4:24 5:
24 6:4 11:5 13:25 14:3 15:3 19:15
32:20,21,24 33:2 39:18,19,22 44:
20 45:9,12,16 46:9,13,19,23 47:2,
11,20,21 48:3,18,19,21,23,25 49:7,
15,18,20 50:5,6,22 52:2,8 53:4,9
55:13,16 68:13,15,19 70:16 71:7,
13 79:22 95:20 96:3,5 97:24 98:18,
22 100:9 101:16 102:16 119:22,23
120:1,4,7,11,14,15,25 122:11
Reichman's 71:6 80:7
reiterate 76:1
relate 100:4
related 34:13
relates 35:9 99:22,23 100:3
relationship 80:6
relative 22:5 105:25
relevance 100:12
relevant 10:8 15:15
reliance 76:16
reliant 77:7
remember 18:21 32:11
rendered 26:18
repeat 11:14 44:18

<p>replaced 103:21 replicate 21:16 report 106:6 REPORTER 47:5 50:20 reports 121:3 represent 104:10 representation 80:3 representing 1:9,9,10 2:1 reprice 57:1 repriced 56:23 57:3,4 request 53:7 65:23 90:17,25 93:22,23 94:12 97:3,5 requests 65:16 83:23 92:13 95:13 required 21:14 57:13 73:23 81:22 requirement 62:17 77:12 78:23 requirements 13:6 requires 42:20 reserve 53:24 95:25 108:23 reserves 96:5 residential 10:17 11:2,16 62:3 107:3,9,14,19,21 108:1 111:4,15,23 112:18 113:24 114:25 115:1,3 119:13 respect 17:13 23:18 respectively 94:23 respond 53:2,5 60:1,5 62:1,2 70:25 78:17 99:5 100:14 111:11 114:24 responded 33:16 response 8:7 33:18 59:11,22 63:25 64:3,4,7 65:23 66:2,15 67:1,12 84:1 90:17,24 91:23,25 92:5 93:21 94:6,9 95:5,6,8,9 97:2,9 114:4 116:15 117:24 responses 59:22 83:23 93:23 95:13,22 96:1 109:3 117:20 restate 78:6 restrictions 101:4 result 21:18 23:2,3,12 40:1,3,7,10 66:7,8 86:18 106:6 results 37:20 resurrect 117:6 retail 9:1 15:5 24:1 27:16,19 30:22 31:1 70:9,12,20 112:5 retailing 31:11 70:15 retain 51:10 59:9,18 retention 57:21 59:3 rev 86:4 revenue 12:10,19 13:15 15:9,12 16:18 17:1,14,21 18:2,8 43:2,8 51:9,21 59:1 60:18 64:12,15,18 72:9 78:23 102:24,25 104:25 105:6 106:9,10,11 109:14 115:14 121:24 revenues 34:20 51:11,21 66:8 85:25 86:21 103:9,9 104:24 105:13 review 83:22 117:22 revise 123:10 revised 80:22 revisions 53:12,18 right-hand 70:9,11 risk 121:19 Robert 1:9 2:15 3:2,6 room 2:10 49:25 50:3 117:6 rough 23:14 roughly 87:16 rule 112:16 rules 75:5 run 87:25 92:8 Ruth 1:3</p> <hr/> <p style="text-align: center;">S</p> <hr/> <p>S1 94:7 95:6</p>	<p>safe 49:25 SALEM 1:1 91:10 117:5 same 4:8 35:17 41:7,21 51:16 58:19 61:19,20 63:13 66:21 75:4 76:15 79:6 86:1 87:16 88:8 108:2,14 119:3 saved 106:12 Saver 56:18 57:15 59:11 88:12,16 Savers 20:12 32:10 57:1,24 63:7 64:2 65:17 109:22 Savings 13:20,21 14:5,12,18,22 17:13,15,20,23 18:3,7 28:20 57:2 59:3,23 64:22 109:2,5,21 115:2 121:13 saw 7:7 62:7,21 saying 23:6 35:11 37:3,4 38:12 50:24 61:2 62:2 66:21,22 70:25 78:17 86:6 114:10 118:9 says 4:9,17 31:9 37:16 62:8 66:4,19 79:24 98:9 102:11,23 103:12,14 121:2 scenario 23:6 28:19 schedule 1:7,12,12 100:18 123:11 scheduled 53:23 100:19 scope 44:10,15 scratch 4:18 screened 117:20 seal 50:17 sealed 50:20 seated 2:25 47:16 second 16:17 23:6 38:14 69:6 90:23 92:1 103:10 section 12:11 20:4 99:17 100:4 see 7:23 13:18 18:18 21:20 26:19 28:3 32:4 37:13,16 38:2,15 41:4,16,23 51:4 53:11,21 54:14,18 60:7 66:13,24 69:2 71:5 89:3,10 90:10 94:2 95:7 99:13 100:12 102:11,23 103:1,14 104:7 108:13 120:2 122:21 seeing 84:1 seek 59:9 95:17 seeking 76:20 89:1 seeks 29:23 seem 95:22 seemed 5:12 seen 15:1 23:15 64:20 69:9 segment 58:11,12 106:12,14,18 segmentations 109:12,13,16 segments 109:20,25 self-provision 87:10 self-provisioning 45:6 self-provisions 87:13,14,15 sell 72:7 76:2,2 79:15 selling 72:10 Selwyn 17:7,8,11,12 19:3 20:15 28:2,12 30:21 31:2 32:5 53:16,21 67:12 Selwyn's 4:11 5:3 19:18 20:2,6 21:17 23:24,25 24:1 27:22 34:13 40:5,18,19 41:1,22 Senate 111:10 sending 30:10,13 35:22,23 sends 29:21 35:24 sense 11:1,23 72:13 75:6,24 76:14 sent 65:23 sentence 4:9 5:2,12 40:25 41:1,3,7,23 66:4 99:13,18 separate 30:7 31:21,22 116:9 separately 30:18 32:12,13 106:6 107:12</p>	<p>serve 11:1 21:6,9,12 74:13 79:10 122:2,5 served 10:18 72:15 83:24 84:2,17 88:16 92:13 serves 73:8 85:2 services 6:21,24 7:17 12:18,20 18:3,3 24:20 25:9 26:15,18,22 27:9,11,12 28:23 29:7,25 30:3,5,8 33:14,15,25 35:21 36:4,4 44:21 45:22 51:3 54:17,20 56:3 61:23,24 73:18 76:10 77:8 78:22 79:5 81:7 82:22,22,24 83:3,6 84:16 85:12 87:9,11 88:8,20 serving 79:9 119:7 session 100:12,19 set 1:5 15:17 21:1,9 42:18,21 71:11 78:2,3,9 79:14 97:22 111:19 112:14 sets 20:25 77:19 92:9,22 setting 44:4 79:23 settled 2:13 seven 14:9 56:20 57:6 several 22:8,9 share 80:7 sheet 38:16 shifted 78:22 shifting 77:3 shouldn't 55:3 show 100:23 shown 5:4 51:18,19 103:9 signal 50:3 signatories 2:9 signed 50:1,2 significant 32:15 40:13 54:21 113:23 significantly 25:4 similar 36:7 simple 88:13 107:12 109:7 simply 17:13 39:1 44:25 66:11,19 81:6 101:4 since 24:12 25:4 26:4 29:3 49:9 81:10 92:25 99:7 117:21 single 29:22 sir 93:19 110:22 situation 31:18 six 14:8 16:8,12,14,20 17:24 20:11 32:9 56:19 57:6 60:25 63:7 sixty-three 121:7 sizeable 62:10 slightly 106:19 112:22 slip 1:12 small 10:17 11:4,16,22 119:14,15 smaller 88:14 sold 74:7,15 76:15 somebody 122:24 somebody's 10:1 someone 11:8 someplace 118:16 somewhere 108:10 sorry 19:20 28:9 44:18 49:17 58:1 68:2 87:13 88:19 89:4 98:20 99:25 102:17 103:25 108:6 113:16 120:13 sort 60:3 68:23 73:22 109:17 sought 24:19 sounds 76:7 space 104:6,9 105:18 speaking 6:12 special 8:17 9:9,10 10:6 11:18 43:17,25 44:6 46:3,15,17 53:25 84:10,22 86:12 87:9 88:2 122:2,6</p>	<p>specific 16:23 34:5 38:2 82:17 84:1 89:21 98:13 99:8 specifically 24:22 spell 3:1 47:17 spelled 3:3 47:19 spot 2:20 square 112:4,11 squeeze 12:16 53:8 75:16 77:13 100:24 squeezes 96:15 98:16 Staff 1:9 91:6 102:1 113:20 Staff's 20:19 Stange 2:2 122:25 123:1 stand 2:16,17,18 38:13 47:13 103:17 104:1 107:15,22 108:22 standard 24:12 104:14 105:16 106:1 standpoint 10:4 11:19 stands 103:8 stapled 92:22 start 1:18 6:16 102:6 started 118:2 starts 4:9,24 41:3 99:13 state 3:1 5:1 8:25 10:18 21:1,4,15 29:8 30:25 47:17 54:12 62:7 69:24 75:3 81:10 86:14 87:19 96:14 115:5 121:3,4 state-wide 21:2,9 stated 34:17 40:2 53:17 statement 57:22 58:2 68:5 74:25 75:8 97:6 99:22 114:9 states 34:19 statistics 120:17 Statute 24:11 99:8,9 statutory 112:6 step 99:1,2 Stepping 14:22 still 54:21 stimulating 66:16 stimulation 66:12,16,22 67:4,8 stop 60:21 90:9 streamline 56:11 strict 74:16 115:17 strictly 51:14,22 73:13 90:4 105:12 115:23 119:12 strike 113:21 strikes 112:13 structure 14:15 111:15,16,18 studies 23:15 study 34:23 35:2 36:9 37:5 62:7 117:4,22 subject 55:11 56:6 99:14 101:6 subjects 110:23 submit 80:22 submitted 3:12 19:3 37:5,9 91:5 subscribe 61:18 62:17 63:19 81:23 subscriber 62:20 106:2 119:6,6,13,15 subscribing 16:20 17:15 Subsection 99:12 100:1 substitute 49:10 subtract 39:4 subtracted 38:22 subtracting 39:3 suffer 78:12 sufficient 10:10 21:10 sufficiently 24:25 suggest 59:14 67:8 86:15 89:7 suggested 65:7 suggestion 123:4</p>
---	--	--	---

Super 13:19,21 14:4,12,17,22 17:13,15,19,23 18:3,7 20:12 28:20 32:10 56:18 57:1,2,15,24 59:3,11,23 63:7 64:2,22 65:17 88:16 109:2,5,21,22 121:13
supplement 95:25 96:5
supplemental 91:23 93:23 94:9 95:6,8
supplied 93:9 107:16
supply 91:12
supplying 69:23
support 86:9 97:6
suppose 39:3 108:4
surcharge 104:24 105:1,24
surcharges 104:23
survey 116:16,21
surveyed 117:11
switch 33:17 59:21 88:1 110:23 115:2 118:2,6,8,14,15,18,19
switching 58:4 73:25 74:1 118:13
sworn 2:24 3:8 47:15,25
sync 114:23
synthesis 113:6

T

T-e-i-t-z-e-l 47:19
T-S-L-R-I-C 5:17
tactic 109:6
talked 63:24 81:20,21 114:14
talks 67:10
tandem 118:19
target 58:25 109:4,19 110:5 112:14
targeted 13:5,7,10,11 57:18 58:10,13 60:1 109:11,19,21 121:15
tariff 27:8 37:13 63:17,17
tariffed 26:16,24
tariffs 37:16 65:2 83:17
technically 39:4 49:9
technology 113:11
Teitzel 13:9 14:13,20 34:4,10 47:12,13,18,23 48:4,25 49:7,8,23 50:6 51:24 52:9,12 53:3,13 54:7 55:10 56:1 68:20 76:7 79:24,25 80:2,11,13 89:25 90:14 93:18 96:9 97:1,17 100:25 102:6,7 103:20 122:14,17
telecommunications 99:14
telemarketing 109:24
Telephone 114:11,12 118:1
telephony 61:8,15 119:2
tend 9:12 31:25 43:25 58:23 65:8 67:8 121:21
term 88:19 111:25 115:5
terminate 8:21 78:20
terminated 84:12
terminates 118:5,8
terminating 8:15 22:11,13,25 23:1,4,5 34:14 84:21 85:10 118:11
terms 37:15 80:17 82:15 87:5 88:2 89:19 90:1
territories 21:13
territory 34:15
test 34:20 35:4 43:3 97:22 103:23,25 104:3,5 105:19 106:4,9,10 108:3
testified 15:4 42:17 60:6 110:11 121:14
testify 3:8 14:16 15:5 47:25
testimony 3:16,22 4:3,5 6:13,17 7:7 8:6,9,11 12:1,11 15:8 17:5,6 19:3,21,22,23 20:1,4 21:20 35:9 37:2 38:6 39:24 40:2,6,19,22 41:1,11,

22 42:7 48:5,11 49:1,3 51:25 53:15,16,19,22 54:10 57:23 65:25 67:18 69:5,10,25 72:6 74:9 79:24 80:1,25 81:9 87:23 89:3,8,17,21 96:12 97:6 100:13 106:22 109:4 111:8 114:5,5 120:22 121:2 123:6
tests 34:18
Thanks 11:25 19:11 23:22 25:16 32:19
theirs 29:3
themselves 24:14 27:13 43:23 46:1 61:23,24
There's 14:11,17 18:9 38:5 45:24 60:23 61:22 62:16 63:16 66:10 75:20 76:8 77:12 78:23 84:14 87:2 104:6 106:1,16 114:22 115:7,7,21
therefore 44:13 80:12
Thereupon 3:7 47:24
thinking 48:23 86:7,24
thinks 70:19
third 32:9 104:2
though 64:22 119:10
three 20:5 40:4,7,11 92:9,22 94:13 111:5 112:5,10
three-page 94:21
Thursday 2:3 100:20 123:2,6,6
today 6:12 15:25 24:14 53:13 61:14 100:21 122:21 123:12
together 23:2,5 90:21 112:12
toll's 29:18
tomorrow 53:8 55:23 68:8 91:13 100:21 117:23 122:18,22
tonight 53:21
took 2:20 38:20,25 39:1
tool 57:19,25 58:9,11 59:3
top 17:4,5,6 19:4 21:16 70:8 94:2,6
total 5:4 21:19 39:1 85:24 86:25 102:12,25 103:18 105:14,17 107:10,17 108:3 113:10 115:10,13,14,17 117:3
touched 11:9
towards 108:1 111:13,23 114:15,20
track 51:10 66:25 91:6 107:12
Trade 68:13,14,15
traditional 118:25
traffic 8:15,21 10:7,11 22:12 23:8,10,11 33:22 34:14 84:11,14,21 85:10,25 86:2 122:7,9
transcript 50:15,16,18
translate 73:24 99:9
translates 99:8
transmission 119:8
transport 74:1 118:3,12
tried 39:12 120:3
Trincher 1:20 33:3,4,7 36:12,15 49:17,19 50:17 52:16 53:1,6,10 54:2 91:8,16 92:14,18 93:7,12,13,14,17 94:16,17 95:16 96:8,11,20,22 97:1,12,15,17 98:3,5,8,11,14,25 99:1,3 100:7,14,16 101:5,10,13,18
true 5:22 6:21 17:19 26:12 29:5,8,21 35:24 42:7 45:3 57:15 72:10 76:5,11 78:1,4,7 82:13,16 83:7,21 104:2
trunk 117:5
try 7:4 68:23,23 79:15 106:5 111:14 114:2
trying 37:2 39:13 101:11 102:10 105:3 115:16

TSLRIC 5:17 28:1 74:10 78:18
TUESDAY 1:1
turn 19:17,25 20:1,2 26:11,11 27:25 40:21 41:6 54:9 93:22 95:3 99:11 106:22
Turner 20:19
Turning 96:11 103:11 109:2
two 38:12 49:20 68:21 79:23 111:4,12 112:11 114:22 118:10,13
two-fold 113:25 114:1
two-page 94:1,3
TY 102:24
TYMOU 103:17
TYMOUs 103:13,15
type 14:23 34:2 59:25 60:1 87:9 88:3,13 106:3 109:13
types 22:9
typical 115:18
typically 81:11,12,14,25 83:19,21 88:11,14,16 118:18 119:17 121:23

U

U.S. 25:8,19,20 26:16,23 41:4
unbundled 54:25 111:17 114:3
under 16:11,17 18:10 28:19 38:1 57:13 66:4,10 71:15,18 75:5 76:8 82:7 88:9 99:12 101:4 103:5,19 104:6,19 105:18 112:23
understand 6:18 7:10,15 18:6 24:15 37:2 52:21 102:10 105:3 108:16 109:3 111:8
understanding 10:2 15:13 27:1 37:12,13 56:10 100:11 101:3
understands 71:7
understood 11:12 116:18
unduly 53:14
Unfortunately 98:5
unlike 75:20
unquote 75:10
unregulated 26:17 29:25
until 32:25
up 15:17 22:20,22 32:22 33:10 39:23 43:12 45:10 46:9 56:4 62:5,9 71:5 85:19 100:21 103:9 105:21 110:1 116:19 117:15 120:2 121:6 122:12
updated 51:4
upper 70:10
usage 11:22 57:12 109:14 115:7,13,19,21,25 116:2
useful 23:23
user 44:23 45:25 46:16 59:9,24,25 74:23 77:8 84:9,11,25 88:14 118:21,22 119:5
users 10:17,17 60:4 121:22
uses 32:5 43:24 57:18 70:6 74:22 85:11
using 10:6 11:20,21 28:1 31:2,4,8 34:2 42:8,15,16 43:14,20 61:11,24 68:4 72:19 73:13 74:16 78:20 81:23 83:4,10 88:19 119:10
UT 1:6 66:7,17 96:16 108:16,16
utilized 30:22
UX 25:7,18 40:16

V

value 58:12,16 88:13 109:7 121:20
varies 62:2
variety 12:24 13:3 43:13 54:13 64:4 115:24
various 44:5

vast 10:16 11:16
vein 59:17
verify 38:14
Verizon 66:2,5,10,21 67:2
Verizon's 65:22 66:7
versa 76:3
version 4:21 41:10 49:11,13,21 80:22 102:7
versus 10:22,23 11:18
via 10:21
vice 76:3
view 7:1,16 31:11 38:25 45:16 58:19 59:4 80:15,19 83:2,6 112:2
viewed 74:24
views 58:14
virtually 79:17 115:22
virtue 9:5
volume 36:8 44:1 59:9,24 88:12 115:18 121:21,23
volumes 10:15 115:22,23
vulnerable 121:19

W

waiting 1:15
walk 69:16,19 85:1 92:18 93:7
wanted 18:6 19:22 34:8,9 38:17 53:11 82:9
wants 32:21 65:10
war 12:18
way 12:11 15:10 18:4,4 22:23 31:11 57:4 58:14 66:11 75:13 85:16,19 87:4 90:1 107:5 115:16
ways 43:13,21 44:5,23
web 65:3,12
website 62:21
week 14:9 56:21 57:7
weekend 109:16
weight 22:9 23:5
weighted 4:17,19,25 5:5 23:2 107:17,25
weighting 23:3 82:17 107:18
Weirich 1:8 36:20,21,24 39:16,25 101:8 102:2,5,17,19,22,23 104:2 108:23 109:1 110:14 122:17,20
West 25:8,19 26:16,23 41:4
West's 25:20
whatever 34:9 36:4 46:5 50:13 123:9
whereas 51:11,17 85:24
whether 8:5 12:16 14:17 41:4 53:11,21 58:8 59:18 60:22 62:2,23 73:23 78:1,3 99:7 100:2,17 116:21,22
white 94:25
who's 67:11
whole 5:2 31:19
wholesale 111:6,16
wholistically 82:1
wide 115:21
widely 57:19
will 1:21 7:14 8:9 13:5,14 16:19,20 17:1 21:2 25:15 26:16 42:24 44:22 47:13 49:22 53:18 57:9 58:12 59:1,10,10,25 62:5,9 64:11,19,24 65:2,5,17 67:3,14,24 75:9 78:24 79:8,10 80:18 84:5 89:21 90:12 91:12 92:21 93:7 96:16 98:11 100:11 104:24 109:17 110:12 112:12 114:24 119:16 121:20
wire 113:11
wise 65:11
wish 4:2 5:8 49:1 51:25
withdrawn 93:8

within 29:15 44:15 116:2,4,7
without 11:22 17:2 22:1 39:2,14
119:9

WITNESS 2:17,19,24 3:2,7 11:14
15:3,7,16,20 18:14 20:19 25:23 32:
19 36:16,17 44:11,18 46:8,22 47:
10,15,18,24 49:15 50:21 51:7 54:
23 56:7 67:11,21 70:18 71:7,10 92:
19 96:10 98:11 100:17 101:19,20
103:22,25 110:16 113:3 119:21
120:4 121:1 122:15

witnesses 1:7,13 15:18 123:11
witnesses' 114:4

word 58:21,22

words 4:24 41:3 70:16 77:9 112:8
114:22

work 23:23 100:19 117:16 122:21

working 21:23 41:14

works 123:9

WorldCom 2:1 11:8 18:19,21,25
19:13 21:8 23:20 33:12 40:14 41:6
67:25 68:12,16 69:3 75:21 78:3,8
79:1,6,20,22 83:23 84:4,8,10,15,20
85:2,11,22 87:1,2,7,15 90:12,15
91:18 92:12,23 93:3,20 95:17 96:7
109:3 116:16

WorldCom's 83:22 87:21

wrap 110:1

written 68:4

wrote 26:13 68:15

Wyoming 94:22

X

XXXXX 51:3,20

XXXXXXX 51:3,18

XXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXX

XXXXX 102:15

XXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXXX 102:

14

Y

year 102:25 103:18,23,24,25 104:3,
5 105:19 106:4,9,10 108:4

years 121:8

yellow 91:3,5,9,12,12

yourself 62:18 99:17

Z

zeros 38:19

Zone 116:1,1

zones 111:6,17 112:5,10

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
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REPORTER'S CERTIFICATE

STATE OF OREGON)
)
County of Polk)

I, SUSAN M. PRICE, Court Reporter and Notary Public for the State of Oregon, do hereby certify:

That the foregoing transcript was taken down by means of stenotype at the time and place therein named, and thereafter transcribed by means of computer aided transcription, and that the foregoing transcript contains a full, true and verbatim record of the said proceedings, pages 1 - 123.

I further certify that I have no interest in the event of the action.

WITNESS my hand this 13th day of June, 2001.



Susan M. Price

Susan M. Price
Court Reporter

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UT 125

In the Matter of the Application of)
QWEST CORPORATION for an Increase in)
Revenues.)

DATE: May 30, 2001

TIME: 9:30 a.m.

PLACE: Agriculture Building, Basement
Large Hearing Room
635 Capitol Street NE
Salem, Oregon 97301-2551

BEFORE: Ruth Crowley
Administrative Law Judge

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JUN 14 2001

Public Utility Commission of Oregon
Administrative Hearings Division

VOLUME 2
Pages 124 - 336

ORIGINAL

DOCKETED

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
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25

APPEARANCES

Ms. Ruth Crowley, Administrative Law Judge;
Ms. Ann Hopfenbeck, WorldCom;
Mr. Jason Jones, PUC Staff;
Mr. Robert Manifold, AARP;
Mr. Lawrence Reichman, Qwest;
Mr. Mark Trincherro, AT&T;
Mr. Mike Weirich, PUC Staff.

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1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

Proceedings held May 29, 2001 -----	1
Proceedings held May 30, 2001 -----	124
Proceedings held May 31, 2001 -----	337
Proceedings held June 1, 2001 -----	536

<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
----------------	--------------------	-------------

FOR QWEST:

Robert Brigham	Direct by Mr. Reichman	3
	Cross by Ms. Hopfenbeck	6
	Cross by Mr. Trincherio	33
	Cross by Mr. Weirich	36
	Redirect by Mr. Reichman	39
	Recross by Ms. Hopfenbeck	45
	Redirect by Mr. Reichman	46
David Teitzel	Direct by Mr. Reichman	47
	Cross by Ms. Hopfenbeck	54
	Cross by Mr. Trincherio	93
	Cross by Mr. Weirich	102
	Cross by Mr. Manifold	110
	Redirect by Mr. Reichman	119
	Recross by Mr. Weirich	124
Dr. Aniruddha Banerjee	Direct by Mr. Reichman	127
	Cross by Mr. Trincherio	130
	Cross by Ms. Hopfenbeck	167
	Cross by Mr. Weirich	169
	Redirect by Mr. Reichman	171
	Recross by Mr. Trincherio	179

FOR AT&T:

Dr. Lee Selwyn	Direct by Mr. Trincherio	182
	Cross by Mr. Reichman	185
	Cross by Mr. Weirich	213
	Redirect by Mr. Trincherio	227
	Redirect by Ms. Hopfenbeck	229
	Recross by Mr. Reichman	234
	Redirect by Mr. Trincherio	244
	Recross by Mr. Reichman	250

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X (cont.)

<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
<u>FOR PUC STAFF:</u>		
Thomas Turner	Direct by Mr. Weirich	260
	Cross by Mr. Reichman	261
	Cross by Mr. Trincherro	290
	Cross by Mr. Manifold	289
	Redirect by Mr. Weirich	294
	Recross by Mr. Reichman	296
<u>FOR AT&T:</u>		
Arlene Starr	Direct by Mr. Trincherro	298
	Cross by Mr. Reichman	300
	Redirect by Mr. Trincherro	334
<u>FOR QWEST:</u>		
Scott McIntyre	Direct by Mr. Reichman	337
	Cross by Mr. Trincherro	342
	Redirect by Mr. Reichman	379
	Recross by Mr. Trincherro	384
<u>FOR WORLDCOM:</u>		
Anthony DiTirro	Direct by Ms. Hopfenbeck	387
	Cross by Mr. Reichman	388
	Redirect by Ms. Hopfenbeck	404
	Recross by Mr. Reichman	406
<u>FOR PUC STAFF:</u>		
Lance Ball	Direct by Mr. Jones	414
	Cross by Mr. Reichman	415
	Cross by Mr. Manifold	437
	Cross by Mr. Trincherro	440
	Redirect by Mr. Jones	443
	Recross by Mr. Reichman	446
Cynthia Van Landuyt	Direct by Mr. Weirich	452
	Cross by Mr. Reichman	453
	Cross by Mr. Trincherro	470
	Redirect by Mr. Weirich	473
	Recross by Mr. Reichman	475
<u>FOR AARP:</u>		
Dr. Pamela Cameron	Direct by Mr. Manifold	476
	Cross by Mr. Reichman	479
	Cross by Mr. Weirich	498
	Cross by Mr. Trincherro	503
	Redirect by Mr. Manifold	504

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X (cont.)

<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
<u>FOR PUC STAFF:</u>		
Jim Stange	Direct by Mr. Jones	506
	Cross by Mr. Reichman	507
	Cross by Mr. Manifold	525
	Recross by Mr. Reichman	533
<u>FOR OWEST:</u>		
David Teitzel - PAL issues		
	Cross by Mr. Harlow	540
	Redirect by Mr. Reichman	628
	Recross by Mr. Harlow	635
David Teitzel - Centrex issues		
	Cross by Mr. Harlow	637
	Redirect by Mr. Reichman	701
	Recross by Mr. Harlow	708
<u>FOR NWPA:</u>		
Don Wood	Direct by Mr. Harlow	709
	Cross by Mr. Reichman	714
	Redirect by Mr. Harlow	760
	Recross by Mr. Reichman	764
<u>FOR ATG:</u>		
Dr. Nina Cornell	Direct by Mr. Harlow	765
	Cross by Mr. Reichman	767
	Redirect by Mr. Harlow	785
	Recross by Mr. Reichman	788
	Redirect by Mr. Harlow	790
	Recross by Mr. Reichman	791

--ooOoo--

E X H I B I T S

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 201	Teitzel direct testimony -----	52
Qwest 202	(Teitzel) Basic Exchange Pricing Summary Residential (Confidential) -----	52
Qwest 203	(Teitzel) Basic Exchange Pricing Summary Business (Confidential) -----	52
Qwest 204	(Teitzel) Extended Area Service (Confidential) -----	52
Qwest 205	(Teitzel) Centrex Plus Services (Confidential) -----	52
Qwest 206	(Teitzel) Vertical Features/services (Confidential) -----	52
Qwest 207	(Teitzel) Listing Services (Confidential) --	52
Qwest 208	(Teitzel) IntaLATA Long Distance Services (Confidential) -----	52
Qwest 209	McIntyre Direct Testimony -----	342
Qwest 210	(McIntyre) Private Line Diagram -----	342
Qwest 211	(McIntyre) Oregon Analog Private Line Proposal (Confidential) -----	342
Qwest 212	(McIntyre) Oregon Digital Data Proposal (Confidential)-----	342
Qwest 213	(McIntyre) DS1 Service Proposal (Confidential) -----	342
Qwest 214	(McIntyre) Switched Access Network Diagram -	342
Qwest 215	(McIntyre) Current Switched Access Price Structure -----	342
Qwest 216	(McIntyre) Proposed Switched Access Price Structure -----	342
Qwest 217	(McIntyre) Oregon Switched Access Proposal -	342
Qwest 218	Brigham Direct Testimony -----	6

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 219	(Brigham) Summary of Selected Rate Design Proposals (Confidential) -----	6
Qwest 220	(Brigham) Deaveraged Loop Zones Qwest-Oregon -	6
Qwest 221	(Brigham) Oregon Residence Access Line NRC Study (Confidential) -----	6
Qwest 222	Teitzel Rebuttal Testimony -----	52
Qwest 223	(Teitzel) Verizon responses to Qwest data requests -----	52
Qwest 224	(Teitzel) Staff responses to Qwest data request 11 -----	52
Qwest 225	(Teitzel) Metronet v. Qwest, granting Qwest's motion for summary judgment -----	52
Qwest 226	Banerjee Rebuttal Testimony -----	129
Qwest 227	(Banerjee) Qualifications -----	129
Qwest 228	Bailey Rebuttal Testimony -----	536
Qwest 229	McIntyre Rebuttal Testimony -----	342
Qwest 230	Brigham Rebuttal Testimony -----	6
Qwest 231	(Brigham) New Mexico Proceedings transcript -	6
Qwest 232	Supplemental Responses to Qwest's Second Set Data Requests (Confidential) -----	194
Qwest 233	Draft from UT85 of Toll, Access, Custom Calling Rates -----	279
Qwest 234	Article by Armando Levy - Semi-Parametrics Estimates -----	281
Qwest 235	WorldCom's Responses to Qwest's first set of Data Requests (Confidential) -----	401
Qwest 236	WorldCom's Responses to Qwest's third set of Data Requests (Confidential) -----	401

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 237	WorldCom's Supplemental Responses to Qwest's third set of Data Requests (Confidential) --	401
Qwest 238	Proposed Amendments to House Bill 2659 -----	538
Qwest 239	Request 01-003 to NWPA -----	726
Qwest 240	Request 03-033 to U.S. West -----	735
Qwest 241	Request 03-032 to U.S. West -----	775
--ooOoo--		
Staff 1	Ball Direct Testimony -----	415
Staff 2	(Ball) Qualifications, Recommended Rate Spread by Service, by Customer Class, Comparison of Qwest and Staff Rate Spread by Major Service Category -----	415
Staff 3	Van Landuyt Direct Testimony -----	453
Staff 4	(Van Landuyt) Qualifications; Switched Access Service -----	453
Staff 5	(Van Landuyt) Switched Access Rate Design (Confidential) -----	453
Staff 6	(Van Landuyt) Private Line Service -----	453
Staff 7	(Van Landuyt) Private Line Rate Design (Confidential) -----	453
Staff 8	Turner Direct Testimony -----	260
Staff 9	(Turner) Qualifications; Message Toll Service Rates Exhibits (Tables, FCC Study) -----	260
Staff 10	(Turner) Toll Revenue and Demand Analysis (Confidential) -----	260
Staff 11	(Turner) Access Imputation Analysis (Confidential) -----	260
Staff 12	(Turner) Price Elasticity Study (Confidential) -----	260

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Staff 13	Sloan Direct Testimony -----	414
Staff 14	(Sloan) Non-confidential exhibits in support of direct, pp. 1-12 -----	414
Staff 15	(Sloan) Pages 2-12, exhibits to Sloan testimony issues (Confidential) -----	414
Staff 16	Stanage Direct Testimony (EAS; Advanced services, business and residential local exchange access; residential NRC) -----	516
Staff 17	(Stanage) Qualifications -----	506
Staff 18	(Stanage) Non-confidential exhibits in support of direct, pp. 1-8 -----	506
Staff 19	(Stanage) Exhibits in support of direct (Confidential) -----	506
Staff 20	Turner Rebuttal Testimony -----	260
Staff 21	(Turner) Status Report in UM 962 Wholesale Discounts -----	260
Staff 22	Two pages, CALLS Analysis -----	500
--ooOoo--		
AARP 1	Cameron Direct Testimony -----	479
AARP 2	(Cameron) Qualifications -----	479
AARP 3	Cameron Rebuttal Testimony -----	479
--ooOoo--		
ATG 1	Cornell Direct Testimony -----	766
ATG 2	(Cornell) Qualifications -----	766
ATG 3	ATG's Request 03-019 to Qwest -----	654
ATG 4	(Not offered)	
ATG 5	Centrex Prime Pricing (Confidential) -----	664

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
ATG 6	Excerpt of Dennis Hruska Deposition, Metronet v. U.S. West -----	667
ATG 7	Centrex Prime Issues (Confidential) -----	667
ATG 8	Small Business Basic Exchange Service, Key Beliefs and assumptions - Tedd Bell (Confidential)-----	679
ATG 9	High level impacts of ONA resale from Judette Hemachandra to Mark Reiger (Confidential) --	672
ATG 10	Fifteenth Supplemental Order, Docket UT-950200 -----	683
ATG 11	ATG's Request 02-014 to Qwest -----	692
ATG 12	ATG's Request 02-004S1 to Qwest -----	692
	--ooOoo--	
AT&T 1	Starr Direct Testimony -----	299
AT&T 1	Starr Direct Testimony (Confidential) -----	299
AT&T 2	(Starr) Response to Data Request 003 -----	299
AT&T 3	(Starr) Comparison of Qwest intrastate rates to FCC interstate rates -----	299
AT&T 4	(Starr) Response to Data Request 006,007 ---	299
AT&T 5	(Starr) Response to Data Request 002 -----	299
AT&T 6	(Starr) Response to Data Request 001 -----	299
AT&T 7	(Starr) Qwest proposed Oregon intrastate rates, percent markup over UM 844 -----	299
AT&T 8	(Starr) Present Market Structure -----	299
AT&T 9	Data Request Response 02-025 -----	101
AT&T 10	Draft Proposed Amendments HB 2659 -----	101
AT&T 11	Data Request Response 04-026 (Confidential)	167

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
AT&T 12	Data Request Response 04-027 (Confidential)	167
AT&T 13	Data Request Response 04-028 -----	167
AT&T 14	Data Request Response 04-037, Article by Rappaport -----	167
AT&T 15	Qwest's Form 10Q -----	353
AT&T 16	Data Request Response 04-040 -----	376
--ooOoo--		
AT-W 1	Selwyn Direct Testimony -----	185
AT-W 1	Selwyn Direct Testimony (Confidential) -----	185
AT-W 2	(Selwyn) Qualifications -----	185
AT-W 3	(Selwyn) Percent Change in California Residence and Business MTS Rates -----	185
AT-W 4	(Selwyn) Percent Change in Residence MTS per Qwest's Proposal -----	185
AT-W 5	(Selwyn) Revised Toll Imputation Calculation (Confidential) -----	185
--ooOoo--		
NWPA 1	Wood Direct Testimony -----	710
NWPA 1	Wood Direct Testimony (Confidential) -----	710
NWPA 2	(Wood) Qualifications -----	710
NWPA 3	(Wood) Proposed PAL Rates (Confidential) -----	710
NWPA 4	(Wood) Alternative Proposed PAL Rates (Confidential) -----	710
NWPA 5	Response to Data Request 03-008 -----	574
NWPA 6	Response to Data Request 03-011 -----	581
NWPA 7	Response to Data Request 04-039 -----	582

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
NWPA 8	Response to Data Request 04-037	----- 588
NWPA 9	Response to Data Request 04-040	----- 595
NWPA 10	Response to Data Request 05-053	----- 596
NWPA 11	Response to Data Request 05-050	----- 618
NWPA 12	Response to Data Request 03-035	----- 623
NWPA 13	Response to Data Request 03-021 (Confidential)	----- 626
NWPA 14	Response to Data Request 03-030	----- 626
NWPA 15	Response to Data Request 04-036	----- 627

--ooOoo--

WorldCom 1	DiTirro Direct Testimony	----- 388
WorldCom 2	Selwyn Direct Testimony	----- 19
WorldCom 3	(Not admitted)	
WorldCom 4	Response to Data Request 03-022	----- 96

--ooOoo--

1 Q Do you remember the question I was discussing at
2 one point about your testimony at Qwest 222, Teitzel 6,
3 footnote 2; and you said based upon December of 2000, Qwest
4 intraLATA long distance usage data, the average length of a
5 residential call is 5.86 minutes while business calls
6 average 3.01 minutes in duration?

7 And I asked if you had the number to calculate
8 the composite average holding time for various time frames.
9 And off the record yesterday we've agreed the only time
10 frame we really need is the year 2000.

11 And have you had a chance to calculate the
12 composite average holding time frame for the year 2000?

13 A Yes. And let me clarify by saying that my
14 footnote is based on December of 2000 minutes of use as
15 opposed to full year of 2000.

16 Q Okay.

17 A So on that same basis, I did calculate a weighted
18 average holding time blending together the business and
19 residence numbers. And the holding time averages to 4.90
20 minutes per call on a weighted average basis.

21 MR. WEIRICH: That's all we have. Thank you.

22 THE WITNESS: Thank you.

23 MR. MANIFOLD: Excuse me.

24 ALJ CROWLEY: Yes.

25 MR. MANIFOLD: I wasn't clear if your answer was

1 for the year of 2000 or December of 2000.

2 THE WITNESS: Based on December 2000 data.

3 ALJ CROWLEY: And any follow up to that
4 question? Thank you, Mr. Teitzel. You're excused until
5 Friday.

6 THE WITNESS: Thank you.

7 ALJ CROWLEY: All right. Are we ready to call
8 Mr. Banerjee?

9 MR. REICHMAN: Yes. Before we do that, I would
10 just like to make one clarification for the record of a
11 statement that I made yesterday. Yesterday in reference to
12 Exhibit AT&T 10, I believe I said that my understanding was
13 that the bill is dead.

14 What I would like to clarify is that my
15 understanding is that this version of the bill is dead.
16 There may well be some version of this bill that passes.
17 And I just wanted to clarify that. And I think by the time
18 the Commission issues its order, we'll know what the
19 legislature has and has not done.

20 ALJ CROWLEY: Thank you.

21 MR. REICHMAN: With that, we'd like to call Dr.
22 Banerjee to the stand.

23 ALJ CROWLEY: Good morning.

24 THE WITNESS: Good morning.

25 ALJ CROWLEY: Would you raise your right hand.

1 (Witness sworn by the Administrative Law Judge)

2 ALJ CROWLEY: Thank you. Please be seated.

3 State and spell your name for the record.

4 --ooOoo--

5 DR. ANIRUDDHA BANERJEE,

6 Thereupon called as a witness on behalf of Qwest, first

7 duly sworn, was examined and did testify as follows:

8

9 DIRECT EXAMINATION

10 BY MR. REICHMAN:

11 Q Dr. Banerjee, would you please state and spell
12 your full name for the record.

13 A Yes. My name is Aniruddha; A-n-i-r-u-d-d-h-a.
14 Banerjee; B-a-n-e-r-j-e-e.

15 Q Thank you. Do you have in front of you Exhibit
16 Qwest 226, which is your direct testimony?

17 A I do.

18 Q And is there an attached Exhibit Qwest 227?

19 A Yes, there is.

20 Q Are there any other questions -- I'm sorry. Are
21 there any corrections you wish to make to your testimony or
22 Exhibits?

23 A There is one.

24 Q And what is that?

25 A In Exhibit 226, page 32, line 5, there is a

1 phrase in the middle of the line which says "especially one
2 of 40 percent". That should be changed to "especially one
3 of 60 percent".

4 Q So what page and line did you have?

5 A This is page 32, line 5.

6 Q I have it actually on page 34, line 8. We may be
7 working from different versions of the testimony.

8 MR. MANIFOLD: I have it on 32, line 5.

9 MR. TRINCHERO: I have it on 32, too.

10 THE WITNESS: Excuse me. I take that back.

11 There are two occurrences of that phrase. One pertains to
12 the average price reduction, which is on page 32. I agree
13 with you, it's on page 34, line 8.

14 Q BY MR. REICHMAN: Just so the record is clear,
15 are you correcting page 32 as well?

16 A No. I take that back.

17 Q Would you please go over the correction again,
18 then?

19 A Okay. On page 34, line 8, where the sentence
20 midway reads, "Would have meant gains by CCPMOU of 40 or
21 more percent", that should read "60 or more percent".

22 Q Thank you.

23 MR. TRINCHERO: Excuse me. Can I ask a
24 clarifying question here? We received a revised page 34 in
25 the mail. And I believe it already says 60 percent there.

1 Is that what we should be working off of?

2 MR. REICHMAN: Yes. I was about to say that,
3 that we did file and serve corrected pages.

4 MR. TRINCHERO: Thank you.

5 MR. REICHMAN: But I just wanted to make sure the
6 record was clear.

7 Q BY MR. REICHMAN: Are there any other corrections
8 that you need to make?

9 A No. That was it.

10 Q Are the answers to the questions in your prefiled
11 testimony true and correct?

12 A Yes, they are.

13 MR. REICHMAN: Your Honor, we would offer
14 Exhibits Qwest 226 and 227.

15 ALJ CROWLEY: Thank you. And just for the sake
16 of the record, you had characterized this as direct
17 testimony. Actually it was filed as rebuttal testimony.

18 MR. REICHMAN: Thank you.

19 ALJ CROWLEY: There were no objections to these
20 exhibits, and they are admitted.

21 MR. REICHMAN: Okay. With that, Mr. Banerjee is
22 available for cross examination.

23 ALJ CROWLEY: Thank you. And I believe our lead
24 examiner is Mr. Trincherro today.

25 MR. TRINCHERO: Thank you, Your Honor.

1 CROSS EXAMINATION

2 BY MR. TRINCHERO:

3 Q Good morning, Mr. Banerjee. I'm sorry. I'm
4 going to have to look at you from behind the reporter's
5 head here.

6 COURT REPORTER: Do you want me to move back?

7 MR. TRINCHERO: No. That's fine. That's fine.

8 Q BY MR. TRINCHERO: Dr. Banerjee, in your
9 testimony at page 19, line 8, you state that some of the
10 significant structural and other events that marked the
11 recent history of demands for Qwest's intraLATA long
12 distance service for the following, and then you list EAS
13 conversions, price reductions and equal access One Plus
14 presubscription; is that correct?

15 A That is correct.

16 Q When you use the term "significant" there, I take
17 it you're talking about something that has a statistical or
18 econometric significance; is that correct?

19 A I use the term "significant" in a broader sense.
20 Probably it has a statistical significance quality to it,
21 but it also means significant in the economic sense;
22 what's happening in the overall market in terms of the
23 competition that's occurring there, the fundamental change
24 and the terms of competition that have occurred during this
25 period in the question, and as a result, the changes in the

1 economic fortunes for all the market participants, not just
2 Qwest but also of its competitors and other firms that have
3 entered the marketplace.

4 Q And can the significance of these factors that
5 you've listed here be tested on a statistical basis?

6 A Yes, they can be tested on a statistical basis.
7 All one needs I suppose is two things. One is the
8 specification of a statistical model which puts all these
9 variables, all of these events, together and outlines a
10 plausible relationship between them. And then one needs
11 data on each of those items so as to be able to conduct the
12 tests.

13 Q And, in fact, you did perform some tests on the
14 impacts of these events, did you not?

15 A I would characterize that as an attempt to find a
16 relationship between the items that I had readily available
17 to me. For that reason, I looked at the data on minutes of
18 use or MOU. I looked at the data on revenues. And I
19 looked at how those data have behaved over time,
20 especially during the time period in question.

21 And I asked myself, in light of these events
22 which I believe to be significant, can one identify certain
23 turning points in the graphs of these different data
24 series, namely revenue and MOU.

25 And when I looked at the rather obvious and

1 self-evident turning points in there, I asked myself, are
2 there reasonable explanations for those turning points.
3 Obviously, I couldn't answer the question fully only
4 because I didn't have data on every item that I would have
5 needed to have to answer that question fully. But when I
6 looked at what those data might be correlated with -- when
7 I'm talking about data, I mean access lines, I mean
8 population growth, I mean per capita income of household,
9 household demographics. Things like that.

10 When I looked at all those features and I looked
11 at how those features might behave over time, then a
12 standard term -- technique that is used by econometricians
13 which is to use a proxy for the underlying data, pointed me
14 in the direction of using time trends as a way of capturing
15 the effects of those missing data items.

16 And when I threw in time trends into the data,
17 I -- or into the model, I was able to find a relationship,
18 at least by proxy, between MOUs and all those missing
19 items.

20 Q And are those tests that you performed summarized
21 then on page 24 of your testimony where you discuss data
22 from January of '97 through December of 2000, at line 2 on
23 page 24?

24 A Let me make sure that I have exactly the copy
25 that you're reading from. Is that page 24 on which line 1

1 is question, "Please explain what these data show"?

2 Q Yes.

3 A Okay.

4 Q I just want to make sure that we're talking about
5 the same --

6 A Yes.

7 Q -- examination.

8 A Yes, we are.

9 Q Okay. And you use in line 3 there the term
10 "polynomial trend of order four". And you'll have to
11 excuse me. One of the reasons that I went to law school
12 was because of my deficiencies in math.

13 But can you just briefly explain to me what you
14 mean by "polynomial trend of order four"?

15 A A polynomial number trend of order four is just a
16 fancy way of saying that if you were to plot the graph on a
17 particular data series and you were to observe the graph
18 changing directions three times, it's always the number of
19 the trend, the order of the trend, minus one, then you have
20 a polynomial trend of order four. So the graph essentially
21 changes directions three times.

22 Q Thank you.

23 MR. TRINCHERO: Your Honor, it I might approach?

24 ALJ CROWLEY: Please.

25 MR. TRINCHERO: Your Honor, the documents that

1 I'm handing out were produced as confidential and subject
2 to the protective order.

3 ALJ CROWLEY: Thank you.

4 MR. TRINCHERO: And we may -- I'm going to try
5 not to, but we may end up discussing some of those
6 numbers.

7 MR. REICHMAN: And I'm not sure what those are,
8 but I'm also aware these were produced in connection with
9 the settlement conference.

10 MR. TRINCHERO: No. These are response to data
11 request.

12 MR. REICHMAN: Thank you.

13 MR. TRINCHERO: Your Honor, I've handed out two
14 documents. And I'd request that we number these as AT&T, I
15 believe it would be 11 and 12. Is that correct?

16 ALJ CROWLEY: Correct.

17 MR. REICHMAN: Can I ask which is which?

18 MR. TRINCHERO: The document entitled "UT 125
19 Phase II Intervenor Request Number AT&T 04-026" would be
20 AT&T 11. And data request "AT&T 04-027" would be AT&T 12.

21 MR. REICHMAN: Thank you.

22 Q BY MR. TRINCHERO: Dr. Banerjee, do you recognize
23 these documents as responses to data requests sent out by
24 AT&T?

25 A Yes, I do.

1 Q And the response to 04-026 on the second page,
2 would it be correct to characterize this as the results of
3 these studies that you performed that are mentioned at the
4 top of page 24 of your rebuttal testimony?

5 A The verbal discussion onto the top of page 24 of
6 my testimony is a summary of the findings which are on
7 these three yellow pages.

8 Q And if we look at the response to data request
9 04-027, which has been marked as AT&T Exhibit 12, is this
10 the underlying data that led to the conclusions that are
11 charted on the three pages attached to AT&T 11?

12 A All true except I would characterize this as the
13 underlying effort to statistically model the data. And
14 what you're seeing in 04-027 are the outputs that came out
15 of every model that I looked at in order to determine the
16 polynomial trend.

17 Q Thank you. Now, turning back to page 19 of your
18 rebuttal testimony, what you were looking at was the
19 significance of three separate EAS conversions; two price
20 reductions and the conversion to One Plus presubscription.
21 Is that correct?

22 A That's correct.

23 Q And you were trying to determine what the impact
24 of those events were on the demand, toll demand trends; is
25 that accurate?

1 A I have to caution that in order to do that, one
2 has to necessarily be able to use every conceivable
3 variable that belongs in a demand model. So I would not
4 characterize this as a demand model. What I would
5 characterize this as, however, is an effort to look at the
6 trend properties, the time trend properties, of the data
7 series in question.

8 Q And the data series in question --

9 A Were the minutes of use.

10 Q Were the minutes of use?

11 A And the revenues.

12 Q And the revenues. Very good. Thank you.

13 Turning to page 2 of AT&T 11, there's a column
14 near the right-hand end of the page called "EAS dummy". Do
15 you see that?

16 A Yes, I do.

17 Q And then another column that says "EQA dummy"?

18 A That's correct.

19 Q Can you explain to me what the EAS dummy
20 represents?

21 A Both of these columns are somewhat inelegantly
22 called dummy variables. I have to explain that in
23 econometrics, that is a term of art. Dummy variables are
24 otherwise known as indicator or binary variables. All they
25 do is take value 0 and 1. They take the value 1 if a

1 particular condition is true. And they take the value 0 if
2 that condition is not true.

3 In the case of the EAS dummy, in months in which
4 there were EAS conversions, the variables took the variable
5 1. In the other months it took the value 0.

6 In the case of EQA dummy, that is an effort to
7 model the period before and after the One Plus
8 presubscription. And so if it was the period before, that
9 variable took the value 0. And if the period after, it
10 took the value 1.

11 Q So then if I understand that correctly, under
12 the -- using the EQA dummy variable, you recognize the
13 event, that is the establishment of One Plus
14 presubscription in the first month that it occurs and then
15 in every month following; is that right?

16 A That's correct.

17 Q And that's because it had a continuing impact?

18 A That's correct.

19 Q And under the column EAS dummy, on the other
20 hand, you only change the variable to 1 in the actual month
21 in which the EAS conversion occurred?

22 A That's correct.

23 Q Now, once toll minutes are converted to local
24 minutes in an EAS conversion, isn't it true that those toll
25 minutes remain local minutes after that?

1 A That's true, they do.

2 Q Isn't it true then to capture the effect of each
3 EAS conversion, one would want to set the variable at 1 for
4 all the months following that EAS conversion?

5 A If one were to do that, then there would be no
6 way to distinguish the different EAS conversions. In fact,
7 what happens is the dummy variable affects the model in a
8 very particular way. It affects the intercept of the
9 equation that is being estimated. It does not affect the
10 slope or any other characteristic of the equation.

11 I know I'm getting technical here. But the
12 reason it is important to point that out is because if the
13 implicit assumption is that the effect of the EAS
14 conversion is felt in a given month in which it happens,
15 then that's the point at which to put 1 in. If the effect
16 is to believe that there is an adjustment that happens
17 fairly soon thereafter, then you can go back to the
18 modeling it as a 0 until the next such event.

19 All it does is it shifts the intercept point. In
20 other words, where the fitted line -- now, I can't explain
21 that without a board very well, a chalk board. But where
22 the fitted line starts and where it ends up. That moves up
23 and down in response to this 1 and 0.

24 If I were to put 1 for all of these months
25 following the initial instance in which it was 1, then that

1 would imply that there is EAS conversions going on in every
2 month.

3 Q Well, couldn't it also, if you set it at 1 after
4 the initial EAS conversion, for every month following, then
5 that would reflect the fact that, in fact, those toll
6 minutes are now local minutes for every month following;
7 isn't that true?

8 EAS conversion doesn't just happen once? Well,
9 the conversion happens once but those minutes are lost as
10 toll minutes thereafter, aren't they?

11 A I agree with that. Again, let me go back to my
12 original answer to the question. If there is an
13 instantaneous response of MOUs to EAS conversion, then this
14 is the right way to do this. Now, this is a modeling
15 assumption.

16 If on the other hand you believe there is a
17 permanent change in the MOU profile, then you would
18 possibly bring additional ones in order to characterize
19 that.

20 I'm looking only at the intercept. I am not
21 looking at the slope. Besides, the EAS dummy proved to be
22 ineffective in the whole model. It had absolutely nothing
23 to explain about the way the MOUs were changing. It is far
24 more important to look at the EQA dummy and the trend
25 itself.

1 Q But isn't it true that the loss of those minutes
2 of use would, in fact, affect the trend in all subsequent
3 months?

4 A The loss -- you have to understand, again,
5 there's a distinction between how the profile drops down or
6 up over time and how it bends down over time. And what I
7 was modeling was a line that would capture the turning
8 points in the graph.

9 I know I cannot possibly give you a visual
10 picture of this here. But I'm trying to model the turning
11 points in the graph, whether those turning points were the
12 EAS conversions or something else.

13 And as it turns out, when I looked at the graph
14 itself, my first hunch was, it's probably the EAS
15 conversion that marked those turning points. As it turns
16 out, it was not the case. It was more to be explained by
17 other factors going on in the market. In particular, the
18 EQA event, which is the One Plus presubscription event.
19 That turned out to be a much more significant turning point
20 of that.

21 Q Now, if all you were looking at was the intercept
22 and not the slope, with the equal access conversion, why
23 would you not correct for that only in the first month and
24 then revert to a 0 dummy variable for the EQA in subsequent
25 months?

1 A Because the entire terms of engagement in the
2 market, the competitive interactions among the firms in the
3 market; namely, Qwest, AT&T, WorldCom, everyone else, was
4 completely changed. That these terms of engagement were
5 completely changed after the introduction of One Plus.

6 And so the period between February of '99 and the
7 rest of the data up to December of 2000, is marked by a
8 completely different regulatory and competitive environment
9 than the previous -- than the period prior to that. And
10 that's why I separated them out in that fashion.

11 Q Now, isn't it true that you could have actually
12 created three separate EAS dummies, one for each EAS
13 conversion, and you'd have three columns here for EAS
14 dummy?

15 A I could do that, but there would be absolutely no
16 gain in terms of model of results from doing anything like
17 that. Besides, you have to keep in mind if you have an
18 intercept term, you don't have as many dummies as you do
19 variables.

20 In this case you have three events. You don't
21 have three dummies. You have two dummies. Always one
22 less. Otherwise you run into a problem called perfect
23 collinearity. And that makes it impossible to estimate the
24 model.

25 So I would not think in terms of expanding the

1 number of columns of 0's and 1's needlessly. It has to be
2 done with a view to eliciting the information that is
3 needed, not just to throw one in for the sake of it.

4 Q Okay. A moment ago you said that when you tested
5 for EAS you found that it did not -- the impact was not
6 significant; is that correct?

7 A I might have said that.

8 Q And, in fact, that would be reflected in the
9 model runs that are appended to AT&T 12; is that correct?

10 A Yes. I'll make one small correction. EAS dummy
11 showed up as significant only in one particular limited
12 case. And that was for the minutes of use for CCPs.

13 ALJ CROWLEY: For the record, sir, please, CCP
14 is?

15 THE WITNESS: The calling connection plans or
16 connection calling plans. One of the two.

17 ALJ CROWLEY: Thank you.

18 Q BY MR. TRINCHERO: And would it be accurate to
19 say that in a model like this, you would gauge whether or
20 not an event is significant if the result in column small t
21 on any of these runs was 2 or greater? Would that be fair
22 to say?

23 A I should explain what the question says. We are
24 talking here of statistical significance. One has to keep
25 that in view because there is such a thing as economic or

1 market significance, which is a completely separate matter.

2 In terms of statistical significance, it is up to
3 the statistician to set a threshold point for that t . Now,
4 all that t is, it's called a t statistic. It is a way of
5 telling whether the parameter that has been estimated for a
6 particular variable is statistically significant or not.

7 Now, there is nothing sacred about the value 2.
8 It just happens to be one that is frequently used, but one
9 could have easily used other values.

10 In my particular case, I looked more at the
11 column next to the column which says t , which says p
12 greater than t within bars. That's known as the
13 probability value. What that says is what is the
14 possibility -- or what is the probability of a particular
15 coefficient being truly 0 by showing up as something other
16 than 0 purely because of chance.

17 And if that number is 5 percent or less, then I
18 will conclude that number is different from 0 not by
19 chance. So I use that second -- or the column next to it
20 to make that inference at the 5 percent level of test.

21 Q Thank you for that clarification.

22 Now, going back to page 19 of your rebuttal
23 testimony, you list as significant structural and other
24 events these three EAS conversions that we've just
25 discussed and the equal access One Plus presubscription.

1 You also list two price reductions; one in January of 1999
2 and one in July of 1999.

3 Isn't it true that you did not test for the
4 impact of those in the model that is reflected in AT&T 11
5 and AT&T 12?

6 A What AT&T -- well, let me take that first. What
7 AT&T 12 shows is my effort to look at the time trend
8 properties of these two data series. It looks at the time
9 trend properties in terms of a variable which is built a
10 certain way. It's either time or it's a square of time or
11 it's the cube of time. It's some kind of polynomial of
12 time.

13 I do look at price reductions at both in January
14 of '99 and July of '99. In fact, if you look at the
15 spreadsheet which is now part of AT&T 11, the very first
16 yellow sheet before the graphs, and if you look at the
17 calculations that appear between those two -- well, on the
18 yellow page, there isn't a second vertical shaded column.

19 But if you look past that shaded column where it
20 says "Calculations and testimony", that's where I
21 investigated the effects of those price changes. And I
22 looked at what happened as a result of those price changes
23 on the minutes of use and the revenues that Qwest
24 experienced following those price changes.

25 Q And where is that reflected?

1 A Where is that reflected in my testimony?

2 Q Or in AT&T 11 or AT&T 12?

3 A I believe it's the response to 04-026, which I
4 believe you have marked as AT&T 11.

5 Q Uh-huh.

6 A If you look at the first yellow sheet, past that
7 first shaded column, on the right-hand side.

8 Q Yes.

9 A Those are calculations which looked at what
10 happened to minutes of use and revenues for CCP and MTS
11 following those two price changes.

12 Q In modeling this, how was it that you were able
13 to discern the impact of the price changes separate and
14 apart from the conversion to equal access in February of
15 '99?

16 A I did not. And I need to remind you that that
17 was not the purpose. I was not building up demand model.
18 What I was looking at was the revenue series and the
19 minutes of use series and asking myself, why does it look
20 that particular way. What kind of time trend can explain
21 that or at least depict that behavior. Not explain it but
22 depict that behavior.

23 And all I was concerned with at that point of the
24 analysis was to identify the turning points, which I did,
25 using the trend model. This was not an effort to bring

1 prices in to somehow explain those turning points. All I
2 was trying to do was to identify the turning points.

3 MR. TRINCHERO: Might I approach, Your Honor?

4 ALJ CROWLEY: Yes.

5 MR. TRINCHERO: Your Honor, I'd ask that the
6 document that I've just handed out, which is a one-page
7 document, be marked as AT&T 13.

8 ALJ CROWLEY: Thank you.

9 Q BY MR. TRINCHERO: Dr. Banerjee, do you recognize
10 this as your response to AT&T data request 04-028?

11 A Yes, I do.

12 Q And in this response, you explain that you did
13 not test for price because the average revenue per
14 minutes -- let's see. AT&T A, which is in your response,
15 you say to see Confidential Attachment A trend analysis.
16 And that's the attachment that we've just been discussing;
17 is that correct?

18 A That's correct.

19 Q And you explain there that the two variables that
20 you looked at were EAS conversions and equal access One
21 Plus presubscription; is that correct?

22 A That's correct. For the limited purposes of a
23 trend analysis.

24 Q Then you also state that the critical problem --
25 this is in explaining why you did not use average revenue

1 per minute and average revenue per minute variable, that
2 ARPM is not the same as the price per unit when tariff
3 charges vary by distance, time of day, day of week, and
4 additional time and minutes. Do you see that?

5 A Yes, I do.

6 Q Thank you. Let's return to AT&T 11 Confidential
7 Attachment A. Under the column entitled "TOT MOU", which I
8 take it stands for total minutes of use; is that correct?

9 A TOT MOU is the sum of two columns, MTS and MOU,
10 which is the minutes of use for MTS service which is CCP
11 MOU, which is minutes of use for CCP service.

12 Q If we look at that column, in your opinion would
13 it be fair to say that between the months January of '97
14 and January of '99, the total minutes of use, while they
15 vary from month to month, do not show any significant
16 trend?

17 A If one were to take a casual look at the data
18 between January of '97 and January of '99, one would make
19 the point that they don't seem to vary a whole lot. Of
20 course, the proof of the pudding isn't actually looking at
21 the data and modeling it.

22 It's certainly true that the variability of the
23 data during that period is much less than in the subsequent
24 period.

25 Q And the subsequent period begins with February of

1 '99 and the conversion to One Plus presubscription; is that
2 correct?

3 A That's correct.

4 Q Okay. Can you turn to pages 17 and 18 of your
5 rebuttal testimony. Beginning at line 17, you list a
6 number of factors that you indicate possibly affect the
7 demand for intraLATA long distance service; is that
8 correct?

9 A Yes.

10 Q And the first that you list is competition from
11 IXC's. And under that you have a bullet point at line 21,
12 "Equal access One plus presubscription"; is that correct?

13 A Yes.

14 Q And you tested for that variable and that's what
15 we've just discussed; is that correct?

16 A Again, that is a loose use of the word "test".
17 All I did was defined that to find at that particular point
18 in time there was a turning point. And that may be a
19 candidate variable if one were to do a full-blown model to
20 explain what happened to the data series at that point.

21 Q And let's just for purposes of this cross
22 examination define our terms. When I say "test", would you
23 agree with me that we can use that term to signify a
24 statistical examination of the impact?

25 A I can live with that.

1 Q Okay. Then in line 22, there's a bullet point,
2 "Single rate and source bill for inter and intraLATA
3 calling".

4 Now, you did not do a similar test for that, did
5 you?

6 A No, I didn't.

7 Q The top of the next page, line 1, it states,
8 "Dial Around and prepaid card calling". You did not do a
9 test for that, did you?

10 A If you're asking me if I included all these
11 variables in my trend analysis, the answer is no, because I
12 don't have specific data lasting the entire 48 months on
13 each of these items. If I had, I would certainly include
14 them. But this is just a list of possible effects or
15 possible variables that could have affected a demand.

16 Q Would it be possible to gather such data if you
17 had sufficient time?

18 A Sitting here, I don't know the answer to that
19 question. I certainly hope that I could gather data on
20 some of them, if not all of them.

21 Q And so you did no similar tests for inducements
22 such as frequent flyer miles that you mention on line 2; is
23 that correct?

24 A No, I didn't.

25 Q On line 3, you state -- you list as one of the

1 potential factors, "Qwest's own activities with respect to
2 price and service offerings". And I'd like to explore that
3 with you.

4 Would it be fair to state that you did examine
5 that to the extent that you looked at MTS and CCP
6 separately in your test?

7 A Again, since I did not go to demand model, I did
8 not actually have a role for price in there. What I did do
9 is look at the two periods or the two months in which there
10 were price changes and looked at how revenue and MOU
11 behaved subsequent to those two changes.

12 Q But when you looked at that, you did not actually
13 remove the impact of equal access; is that correct?

14 A In that analysis of what happened to MOU and
15 revenue after those two price changes, no, I did not model
16 it in the sense of a regression model. No, I didn't do
17 that.

18 Q Thank you. On line 4 you mentioned price changes
19 for MTS and CCP. Would it be fair to state that you did
20 not test for that?

21 A No. I was not building a demand model. I was
22 looking at trend.

23 Q In lines 5 through 8, you mentioned competition
24 from cellular telephony. Particularly on line 6, you cite,
25 "Substitution for wire line network access". Is it fair to

1 say you did not test for that?

2 A Okay. Let me explain what the trend analysis is
3 supposed to do. The trend analysis is supposed to --

4 Q Dr. Banerjee, if I might interject here?

5 A I'm sorry. Let me answer your question directly
6 first.

7 Q Yes. Thank you.

8 A I did not. But the trend analysis is supposed to
9 capture these other effects. The whole point of trend
10 analysis is to recognize that there are other factors out
11 there beyond just the price of the service. And these are
12 some of those factors that I have listed.

13 Because I did not have 48 months of data on each
14 of these items, I have to rely on proxies of these items to
15 conduct my trend analysis. That is was where I assumed the
16 effects of these variables were captured.

17 Q And so given that, it is possible that if these
18 were effects, they would be captured in the trend lines; is
19 that correct?

20 A That is my assumption, yes.

21 Q But the test that you performed would not in any
22 way establish whether or not they were, in fact, causal
23 effects; isn't that correct?

24 A It would be too ambitious a claim to say there is
25 anything like a causal effect here. The best these models

1 can do is indicate some kind of relationship over time
2 between one variable and another variable.

3 Testing for causality is entirely different.
4 It's an extremely difficult thing to do with the kind of
5 data that we have. But we have a basis to establish that
6 there is a relationship at least.

7 Q Given the type of test that you performed here,
8 this trend analysis where you specifically tried to control
9 the test in order to determine what the impact of EAS was,
10 for example, and the impact of equal access, isn't it fair
11 to say that you did not similarly control or run a model to
12 determine the impact of these other factors?

13 A It is fair to say that I didn't do them
14 separately, but it is also fair to say that I did them
15 collectively through the trend model that I built. The
16 whole point of the trend model, as I explained earlier, is
17 to capture the influences of all those variables on which I
18 did not have data but with which I know were around the
19 time that these revenue and MOU series were collected.

20 So it would be negligent of any modeler to leave
21 those factors out completely just because you have no data
22 on them. The proper way to do that in the econometrics is
23 to do trend analysis, to at least account for that. Having
24 isolated those factors, and then ask the question, is there
25 something left over that could explain how prices change.

1 But what you're doing with a trend analysis is
2 controlling for all these non-price and other market
3 factors on which you don't have direct data.

4 Q Let's take a hypothetical. Assume with me for a
5 moment that all of these factors did not actually influence
6 the trend. Would the way in which you modeled this reflect
7 that? Would you be able to determine whether or not they
8 had, indeed, failed to affect the trend?

9 A You're asking me to assume something that I'm not
10 comfortable doing. But be that as it may, if you were to
11 say none of these have anything to do with the trend, and
12 yet I find a significant relationship to trend, then I
13 would have to go and think of other possible candidates
14 that are not in this list. But I don't necessarily agree
15 with the initial assumption.

16 Q And is it fair to say that for the rest of this
17 list through line 16 you did not perform a similar analysis
18 for any of those particular items?

19 A Correct. I did not perform a break out variable
20 by variable. I captured them all through the trend
21 analysis system.

22 Q Thank you. I'd like to turn you back to AT&T 11,
23 first page of Confidential Attachment A. If we look again
24 at the total MOUs column, isn't it true that the primary
25 decline -- well, let me rephrase that.

1 Isn't it true that there is a significant decline
2 between February of '99 and December of 2000; is that
3 true?

4 A Yes. Compared to the previous period, yes.

5 Q And even though there were price changes and EAS
6 conversions after that and before that, the true
7 significant event that drives these numbers is the equal
8 access conversion?

9 A If one were to just look at this column, one
10 would be tempted to conclude that that's the case.
11 However, we don't know that that is necessarily the only
12 factor that is driving the significant decline in the
13 volumes as well as revenues after February of '99. But I
14 would assume that that is certainly one of the contributing
15 factors.

16 Q Can you turn to page 27 of your rebuttal
17 testimony. And actually starting at the bottom of page 26,
18 line 22, you see the sentence that begins "Even in an era
19 in which the per minute price of intraLATA toll service has
20 been drifting downward". Do you see that?

21 A Yes.

22 Q And you go on to state that the ability to switch
23 to competing service providers means that cross price
24 effects have grown in significance relative to its own
25 price effects. Is that your testimony?

1 A Correct.

2 Q Then you go on to state that, in other words,
3 even with price reductions, Qwest is likely to find any
4 resulting stimulation, parens, positive demand response,
5 end of parens, greatly reduced or offset; is that correct?

6 A Correct.

7 Q So in order to determine that, you would have to,
8 in fact, determine the cross price effects of these other
9 factors, would you not?

10 A I'm sorry. In order to determine what?

11 Q That this statement is, in fact, true, you would
12 have to test the cross price effects?

13 A No, I don't necessarily agree with that. Let's
14 start with the fundamentals here. I think we all agree
15 that the own price effects are likely to be in the form of
16 demand response. We may disagree on how much demand
17 response, but we at least agree that there should be some.
18 So that would necessarily bump volumes up.

19 Now, in an era in which we're actually observing
20 that volumes are going down rather than up, one has to
21 reach the logical conclusion that there must be two forces
22 that are working at cross purposes; demand response which
23 is pushing volumes up, and demand shifts which are pushing
24 volumes down. And if demand shifts win, then the volumes
25 are down on balance.

1 Q In your opinion, do you believe that competitors
2 would likely lower their toll prices in response to a toll
3 price reduction by Qwest?

4 A I'm not privy to competitor's motives and
5 actions. But I would assume that when there are relatively
6 new competitors in a market, say four, five, no more than
7 that, that they are particularly sensitive to what the
8 leading or the pre -- initial existing firm might do. So
9 they may choose to match. They may choose not to. I don't
10 know.

11 Q If competitors choose not to reduce their toll
12 rates, then wouldn't the own price effect of the Qwest toll
13 reduction be more significant in determining demand?

14 A Are you assuming that competitors match -- don't
15 match at all any price reduction that Qwest initiates?

16 Q I'm just following up on your prior response
17 where you said you didn't know whether they would or not.
18 And I'm asking you to assume with me that they did not.

19 A Okay. If Qwest -- let's mark out the situation
20 that's being proposed here. Qwest leads with a reduction
21 of prices. AT&T, WorldCom or whoever else decide that, for
22 whatever reason, that they decide not to match the
23 reduction of prices, that leaves Qwest with conceivably a
24 lower price for intraLATA toll than its competitors.

25 If that were all that mattered, yes, it would be

1 true that there would be no cross price effects. But
2 customers are unpredictable in many ways. They might
3 switch to a higher priced competitor just because they like
4 the convenience of the one bill or because they're
5 fundamentally ignorant or don't care about the subtleties
6 of price differences between Qwest and its competitors, or
7 because they like the reputation of the other firm. AT&T
8 and WorldCom are certainly respected companies, and they
9 might just have a natural preference to migrate regardless
10 of price changes.

11 So even though the cross price effects might be
12 0, there still might be reasons for certain customers to
13 move over to Qwest's competitors.

14 Q And wouldn't all of those conditions exist
15 regardless of price changes?

16 A Yes, they could.

17 Q Thank you. Can I have you turn to page 41 of
18 your rebuttal testimony, please.

19 In footnote 21 on that page you state, "It is of
20 no small interest that the California Commission's choice
21 of a price elasticity value of negative 0.5 was
22 subsequently belied by Pacific Bell's revenue records since
23 1995."

24 Do you see that?

25 A Yes.

1 Q And then you state further that the California
2 Commission's correction in 1998 that lowered the designated
3 elasticity value to -0.2 was confirmation of this.

4 Do you see that?

5 A Yes.

6 Q And then you cite to a report by Paul N.
7 Rappoport and Lester D. Taylor. Do you see all of that?

8 A Yes.

9 MR. TRINCHERO: Your Honor, if I might approach?

10 ALJ CROWLEY: Please.

11 MR. TRINCHERO: Your Honor, I've distributed a
12 multi-paged document which I would ask that we mark as AT&T
13 14.

14 ALJ CROWLEY: All right.

15 Q BY MR. TRINCHERO: And just to identify this
16 document, on the first page it indicates that this is a
17 response to AT&T discovery request number 04-037.

18 Do you have that in front of you, Dr. Banerjee?

19 A I do.

20 Q And in that discovery request you were asked to
21 provide a copy of the article that's referenced there; is
22 that correct?

23 A Correct.

24 Q In your response at A you state that the
25 statement is based on remarks made in footnote 20 of the

1 Rappoport and Taylor paper referenced in part B above.
2 Rappoport and Taylor in turn relied on analysis conducted
3 by Timothy Tardiff who also testified on behalf of Pacific
4 Bell in the 1998 California proceeding; is that correct?

5 A Correct.

6 Q Further you indicate that Dr. Tardiff's analysis
7 and results were published in a paper entitled "Effects of
8 Large Price Reductions on Toll and Carrier Access Demand in
9 California". Do you see that?

10 A Yes.

11 Q And that was published in 1999; is that correct?

12 A That's my understanding, yes.

13 Q Now, if you turn to the second page of this
14 document, you'll see it's the first page of the Rappoport
15 article. Do you see that?

16 A Yes.

17 Q And do you see underneath the title there's an
18 indication that it was received November 20th, 1995;
19 accepted 23rd of July, 1996?

20 A Correct.

21 Q And I guess I just need clarification, you
22 indicate in your response that Mr. Rappoport and Mr. Taylor
23 were relying on Mr. Tardiff's article, but Mr. Tardiff's
24 article was published in 1999 and this was published in
25 1996. I guess I'm just a little bit confused.

1 Could you clarify that?

2 A That's pretty easy to clarify. I'm glad I have
3 the chance. The article that you refer to by Dr. Tardiff
4 was published in a book in 1999. But the work that he did
5 towards that article was conducted in 1995 following the
6 first IRD decision in California.

7 And, in fact, if you look at footnote 20 in the
8 Rappoport and Taylor paper, the very last sentence in that
9 footnote says, "Details, see Tardiff and Taylor, 1995 and
10 Tardiff, 1996."

11 That establishes the fact that Dr. Tardiff
12 conducted this analysis in that time frame, even though
13 parts of that analysis and some other stuff got published
14 in that book in 1999.

15 Q Thank you. And, in fact, the conclusion that
16 Rappoport and Taylor draw in this study, which is reflected
17 in this article, is on the top of page 66; is it not?

18 A Yes.

19 Q And it says there that the results yield an
20 estimated price elasticity for intraLATA toll of point --
21 I'm sorry. Of -0.44 and a price elasticity of interstate
22 toll of -0.50.

23 Do you see that?

24 A Yes.

25 Q Thank you. Now, we had some discussion earlier

1 about the impact on toll of EAS conversions. Do you recall
2 that?

3 A Yes.

4 Q Now, is it your understanding that in Oregon when
5 toll minutes are converted to EAS, a surcharge is developed
6 in order to make a revenue neutral impact for the company?

7 A I don't have firsthand information of that, but
8 that is not unusual.

9 Q So, in essence, while a company's toll minutes
10 may decrease, the revenues associated with those toll
11 minutes at the time of the conversion remains constant
12 subsequently; is that correct?

13 A Well, in theory it could if that is, indeed, the
14 way this particular EAS conversion was implemented in
15 Oregon. I don't know the facts. In theory it could. But
16 as we know, many that slip between the cup and the lip.
17 All kinds of things happen in the marketplace.

18 Over the years I have come to distrust any claim
19 of a revenue neutral change. Revenue neutrality requires
20 the price of elasticity to be of a very specific kind. And
21 typically the customers or consumers prove us all wrong on
22 that. So we often miss the revenue neutral target that we
23 set out to achieve. But in theory it could.

24 Q Now, in our earlier discussions of the factors
25 impacting toll demands such as equal access conversion,

1 isn't it true that toll demand would be impacted for Qwest
2 regardless of whether or not Qwest has a price change?

3 A If just the EAS event were to happen?

4 Q Or --

5 A Unaccompanied by any other changes in the market?

6 Q Yes.

7 A Yes. Other things being constant, that is the
8 expectation.

9 Q That would be true also of the impact of the
10 equal access conversion; is that right?

11 A Just taken by itself, yes.

12 Q And, in fact, Qwest would then ostensibly lose
13 revenues, given those impacts?

14 A The impact of EAS conversion and equal access
15 could conceivably be for Qwest to lose intraLATA toll
16 revenues, yes.

17 Q Is it your position that this Commission should
18 establish rates for Qwest that make them whole for
19 competitive losses?

20 MR. REICHMAN: Objection. I think that goes
21 beyond the scope of his direct testimony.

22 ALJ CROWLEY: Does that go beyond the scope of
23 your testimony?

24 THE WITNESS: I did not address that issue.

25 ALJ CROWLEY: Thank you.

1 MR. TRINCHERO: Your Honor?

2 ALJ CROWLEY: Yes.

3 MR. TRINCHERO: The scope of Dr. Banerjee's
4 rebuttal goes to how to set the toll rates in this case
5 and the impact that competitive factors have had on toll
6 demand. Those competitive factors he has acknowledged
7 would happen whether or not Qwest was in for a rate case.
8 If Qwest were not in for a rate case, they would be losing
9 toll revenues.

10 What Dr. Banerjee is suggesting is that when we
11 set their toll rate here, we take into account those toll
12 losses. What I'm asking him is whether or not he believes
13 that it is appropriate for this Commission to make Qwest
14 whole on competitive losses.

15 MR. REICHMAN: And that mischaracterizes his
16 testimony. He only testified as to the issue of price
17 elasticity. And his testimony is that there are other
18 factors that offset any demand response to price changes.
19 That is what his testimony is limited to.

20 He does not go beyond that. And we believe the
21 question goes well beyond that.

22 MR. TRINCHERO: But, Your Honor, it is those
23 offsetting factors that would impact how we set the rates.

24 ALJ CROWLEY: Mr. Reichman, I'm going to note
25 your objection and I'm going to allow the question. Go

1 ahead.

2 THE WITNESS: The answer to that question is a
3 rate design is a whole lot more complicated than what I've
4 attempted to address in my testimony.

5 In my testimony I looked at, as Mr. Reichman
6 characterized it correctly, as the fact that you have two
7 sets of effects; you have demand response and you have
8 demand shifts. If you want to make a comprehensive revenue
9 forecast; that is to say if you want to predict what kind
10 of revenue reductions will occur as a result of certain
11 rate reductions that are going to be implemented in this
12 proceeding, then all I was trying to point out was that it
13 would be insufficient to look only at the demand responses,
14 given the kind of market that Qwest and its competitors
15 operate in today. It would necessarily mean looking beyond
16 demand responses as well as at demand shifts as well.

17 I take no position on whether competitive losses
18 should be made whole. In fact, that is a company decision
19 or your prerogative, Your Honor. It's not mine.

20 MR. TRINCHERO: If I might have a moment, Your
21 Honor?

22 ALJ CROWLEY: You may.

23 MR. TRINCHERO: If I might have one moment, Your
24 Honor?

25 ALJ CROWLEY: Please. Do you want to go off the

1 record, is that what you're asking for?

2 MR. TRINCHERO: Yes, please.

3 ALJ CROWLEY: All right. I'll take us off the
4 record.

5 (Recess taken)

6 MR. TRINCHERO: Thank you, Your Honor, for that
7 short break. Might I approach the witness?

8 ALJ CROWLEY: Please.

9 MR. TRINCHERO: Your Honor, I've handed the
10 witness a copy of Qwest's Form 10Q. And I'd ask that we
11 mark that as AT&T -- is that 15?

12 ALJ CROWLEY: 15.

13 MR. TRINCHERO: 15. Thank you.

14 Q BY MR. TRINCHERO: Isn't it true, Dr. Banerjee,
15 that it's your position that there is no significant price
16 elasticity of demand with respect to switched access?

17 A I would have to ask you to clarify what you mean
18 by "significant" in this context.

19 Q Well, let's use the term "significant" in the
20 loose fashion that you used the term "significant" at page
21 19 of your rebuttal testimony in talking about toll
22 demand. If we use that definition.

23 A I'm afraid the two things are quite different.
24 When you say "significant elasticity", it could mean
25 anything from a low number but which is nonetheless

1 non-negligible, to a very high number. And it pretty much
2 depends on what you mean. Pick a number and I will gladly
3 address it.

4 Q Let's rephrase and go at this in another way. Is
5 it your position that in determining the price changes in
6 this case, it would be appropriate for the Commission to
7 make an adjustment as to the switched access revenues that
8 would be projected in order to account for a shift in
9 demand?

10 A Are you asking me to address the switched access
11 revenues issue for the purposes of this proceeding? I
12 understand that the only service for which a price
13 elasticity has been proposed is intraLATA toll. And that's
14 all I have addressed here. I have not looked at switched
15 access revenues or tried to determine whether adjustments
16 need to be made there or not.

17 No matter what my personal views are, the
18 question is, should the elasticity as proposed be used for
19 intraLATA toll. And I have submitted testimony addressing
20 that point, not on switched access revenues.

21 Q Dr. Banerjee, would Mr. McIntyre be the more
22 appropriate witness to address this question for you?

23 A I assume so.

24 Q Thank you.

25 MR. TRINCHERO: Your Honor, at this time I'd move

1 the admission of AT&T 11, 12, 13, and 14. And I will hold
2 off on AT&T 15 until we've had an opportunity to cross
3 examine Mr. McIntyre.

4 ALJ CROWLEY: Thank you. Any objections?

5 MR. REICHMAN: Your Honor, no objections with
6 respect to 11, 12, or 13. With respect to 14, I note that
7 it's incomplete. There were two articles referenced. This
8 attaches one. However, I don't object because we intend to
9 offer the other one to make it complete.

10 ALJ CROWLEY: Thank you. All right. Any other
11 responses to the motion to admit these documents? AT&T 11,
12 12, 13 and 14 are admitted.

13 MR. TRINCHERO: If I might have one more moment,
14 Your Honor?

15 ALJ CROWLEY: Okay.

16 MR. TRINCHERO: Thank you, Your Honor. I have no
17 more questions for this witness. Thank you, Dr. Banerjee.

18 THE WITNESS: Thank you.

19 ALJ CROWLEY: Thank you. Ms. Hopfenbeck?

20 --ooOoo--

21 CROSS EXAMINATION

22 BY MS. HOPFENBECK:

23 Q I just have a couple of questions for you, Mr.
24 Banerjee.

25 A Sure.

1 Q Dr. Banerjee.

2 A No problem. I've been called worse.

3 Q I represent WorldCom. I'd like to turn your
4 attention to the second page of what has been admitted as
5 AT&T Exhibit 11, please.

6 A Do you mean the first yellow sheet?

7 Q Yes. And I just wanted to ask you, did you look
8 at similar information or a similar set of data with
9 respect to switched access minutes of use?

10 A No.

11 Q Would you agree that given what's reflected
12 beginning in February of 1999, the equal access conversion,
13 would you agree that you would expect to see switched
14 access minutes of use having grown?

15 A If the volume declined is explained by consumers
16 moving from Qwest to other providers of intraLATA toll
17 service that also purchased switched access from Qwest,
18 then yes. But there could be other kinds of movements and
19 leakages going on, too.

20 Q You didn't study that though, did you?

21 A No, I didn't.

22 Q Okay. Thank you very much.

23 MS. HOPFENBECK: I have nothing further.

24 ALJ CROWLEY: Thank you. Mr. Reichman? Sorry.

25 Mr. Weirich?

1 MR. WEIRICH: I have some follow up on cross.

2 ALJ CROWLEY: Go ahead.

3 MR. WEIRICH: Just on Exhibit AT&T 1.

4 --ooOoo--

5 CROSS EXAMINATION

6 BY MR. WEIRICH:

7 Q Mr. Banerjee, I'm Mike Weirich from PUC Staff.

8 A Nice to meet you.

9 Q Nice to meet you. I'm just trying to understand
10 AT&T 11 a little bit more. Just a factual question.

11 Preparing AT&T 11, did you incorporate the fact that Sprint
12 United became a primary toll carrier in July of 1997; is
13 that one of the pieces of information?

14 A No. It's not in here, no.

15 Q And how you prepared your dummy value -- dummy
16 variables for the EAS conversions, would you agree that
17 another way to do this, to represent these dummy variables,
18 is that after each EAS conversion occurred, that event will
19 be marked with a 1 and then followed subsequently with 1's
20 thereafter to reflect the fact that it did occur?

21 A I believe I addressed that question earlier on.

22 Q I think you did. I'm trying to understand it.

23 A The problem with doing that is that when you have
24 multiple EAS events that happen several months apart, that
25 if you have a 1 for the first event and then you have 1's

1 for every subsequent month, then when the second event
2 happens, you have no way of differentiating that from any
3 other month in which an EAS conversion does not happen.

4 So I thought long and hard about that and then
5 decided to do it the way I did because all I was looking at
6 was the effect on the intercept and not on the slope. So I
7 let it go at that.

8 Q Turning to your column EQA dummy, which is the
9 value parity column, One Plus subscription, I think how you
10 did this column is that you would note for when the One
11 Plus subscription occurred and just followed that with a
12 series of 1's; is that correct?

13 A That's correct.

14 Q Okay. Would you agree that there is some time to
15 implement One Plus presubscriptions so that when that event
16 occurs, it doesn't mean that all consumers automatically at
17 once take advantage of One Plus presubscription? There's
18 an implementation period, if you follow my question.

19 A I agree that the implementation period is
20 obviously not instantaneous and consumers do take a while
21 to become aware of changes in the marketplace. But that
22 does not stop the potential competitors from jumping in on
23 day one and announcing to the world that they are now able
24 to compete on an even basis.

25 Q I understand that. But the way you set up AT&T

1 11, page 2, would it be fair to characterize that as
2 reflecting instantaneous implementation?

3 A No. All it does is it separates the period
4 before One Plus from the period after.

5 Q Okay.

6 A That's all it does.

7 Q Okay. That's all I have. Thank you.

8 THE WITNESS: Thank you.

9 ALJ CROWLEY: Mr. Reichman?

10 MR. REICHMAN: Thank you. Might I ask if we
11 could take perhaps a ten minute break before we go on?

12 ALJ CROWLEY: That would be wonderful. Let's be
13 back at about five past 11.

14 (Recess taken)

15 ALJ CROWLEY: Mr. Reichman, you may proceed.

16 MR. REICHMAN: Thank you, Your Honor.

17 --ooOoo--

18 REDIRECT EXAMINATION

19

20 BY MR. REICHMAN:

21 Q Good morning, Dr. Banerjee.

22 A Good morning.

23 Q Mr. Weirich asked you a question about whether
24 some of the data in, I believe it was Exhibit AT&T 11,
25 reflected the fact that Sprint United becoming a primary

1 toll carrier in Oregon.

2 Do you recall that question?

3 A Yes, I do.

4 Q Do you know whether or not that fact is accounted
5 for in that data?

6 A No, I don't. I worked with whatever data was
7 given to me.

8 Q Thank you. Mr. Trincherro pointed you to a
9 particular page in the article attached or included in
10 Exhibit AT&T 14. And I believe it was page 66 which sets
11 forth an estimated price elasticity for intraLATA toll of
12 -0.44.

13 Do you believe it is valid to use that figure in
14 estimating price elasticity in Oregon today?

15 A No.

16 MR. TRINCHERO: Objection, Your Honor. I believe
17 that goes outside the scope of redirect. My question was
18 simply what the study -- what the study found.

19 ALJ CROWLEY: I'm going to allow the question.
20 I'll note your objection.

21 THE WITNESS: The answer to your question is that
22 this set of elasticity estimates of -.44, et cetera, was
23 based on a 1994 study of 65 -- of roughly 6500 households
24 across the country. Like many other studies that we've had
25 occasion to talk about or to address in this proceeding,

1 this is a very dated study.

2 Elasticity is clearly from a precompetition era
3 in many states, if not most. And, therefore, would not be
4 in my opinion a good candidate for Oregon.

5 Q BY MR. REICHMAN: Going back to Mr. Trincherro's
6 earlier part of his cross examination, he spent a good deal
7 of time going over some of the, I think the word was
8 "tests", that you did in a lot of detail.

9 Let me ask you generally, what was the purpose of
10 your analysis that he was referring to?

11 A The purpose of my analysis was to identify what
12 steps needed to be taken to conduct a revenue impact study
13 of the rate reductions that have been proposed in this
14 proceeding.

15 And, obviously, as I've documented in my
16 testimony, there are multiple steps that need to be taken.
17 There are two principal steps. One is to account for the
18 demand responses. We all agree that price reductions are
19 unlikely to elicit increases in demand, other things being
20 constant. But if that's all we were concerned with, then
21 we would stop right there.

22 Rather we are talking about a revenue impacts
23 analysis, which means that you must take into account how
24 the market is now and not in some fictional time period,
25 and what are the different forces besides price that shape

1 demand and revenue.

2 And so for that reason, I looked at both demand
3 response, which is a pure response to the price that Qwest
4 charges or changes -- the price that Qwest charges, and
5 demand shifts, which are all the other responses that
6 Qwest's customers may have or manifest in response to
7 everything else that's going on. And some of the other
8 things that are going on are documented in my testimony.

9 Q Okay. And can you define what you mean by
10 "demand shift", please?

11 A Demand shift is the response of demand to
12 non-price factors. Non-price, when I say "non-price", I
13 mean Qwest's price. I don't mean the prices of other
14 companies. Competitive changes, structural changes,
15 regulatory changes, all of those changes produce some
16 ripple effects which ultimately shape customer behavior.

17 And all of those are captured under the label
18 "demand shifts" because at any given level of price, even
19 if price doesn't change, people might still switch to other
20 carriers or switch back for other reasons. And if we don't
21 take into account those other shifts, then we will
22 significantly bias any study of revenue impacts.

23 Q With the term "demand shifts", are you
24 essentially referring to shift of demand away from Qwest
25 and into other providers or other sources?

1 A That's certainly one possibility and could be the
2 other way, too. Demand shifts are basically movement of
3 consumers from one carrier to other carriers.

4 Q Is that the same term as cross elasticity or is
5 that a different term?

6 A Cross elasticity is a part of the demand shifts
7 issue because that speaks to the shift that happens in
8 response to price changes initiated by competitors or other
9 carriers. But I have a larger picture in view. I mean
10 more tentative communication technologies like when
11 internet based or cellular based telephony comes in and
12 offers customers an alternative to wireless telephony.

13 I also mean things like structural changes, EAS
14 conversions, equal access changes the rules of the game in
15 the way the market operates.

16 Q And do you believe it is reasonable to exclude
17 all of these other factors in analyzing the revenue impact
18 of a price change?

19 A No. I believe that they have to be an inclusive
20 part of any such study. They cannot be excluded from a
21 demand response analysis, but this is not what I'm talking
22 about. I'm talking about a revenue impact analysis.

23 Q Do you believe that it is probable that other
24 carriers in the Oregon market will pursue competitive
25 responses as a result of Qwest's lowering of toll prices as

1 a result of this proceeding?

2 MR. TRINCHERO: Your Honor, I'd like to interpose
3 an objection. I don't see how this is redirect.

4 MR. REICHMAN: I believe Mr. Trincherro asked him
5 this very similar question about whether other competitors
6 would respond or how other competitors would respond with
7 price changes.

8 MR. TRINCHERO: Actually, Your Honor, I asked him
9 a hypothetical as to whether or not there would be demand
10 shifts in such an event. I did not actually ask him his
11 opinion as to whether or not they might do that.

12 ALJ CROWLEY: I think Mr. Trincherro is correct.

13 MR. REICHMAN: I would like to get, if he asked a
14 hypothetical, I would like to get some actual evidence that
15 shows whether that hypothetical is a fair hypothetical.

16 ALJ CROWLEY: All right.

17 Q BY MR. REICHMAN: Do you have the question in
18 mind?

19 A Would you repeat that, please?

20 Q I'll try. Do you believe that it is probable
21 that other carriers in Oregon will pursue competitive
22 responses to the price changes in Qwest's toll product that
23 result from this proceeding?

24 A I agree it's probable, and only because of having
25 observed similar markets elsewhere. These are called

1 oligopolistic markets where there's competition between few
2 firms and not a whole big, large number of firms. There
3 might be a small -- a set of fringe firms which are
4 competing. But leaving those aside, let's leave the big
5 ones. It's typical to see one firm leading with the price
6 change and the other firms responding.

7 Now, whether that will happen in this market,
8 it's probable, but I don't know to what extent.

9 Q You say other firms following, do you mean by
10 adjusting prices?

11 A Yes.

12 Q Lowering prices?

13 A Lowering prices.

14 Q And are there other sorts of incentives that you
15 are aware of that other carriers offer to attract
16 customers?

17 A Yes. In competitive situations, price is just
18 one of the weapons that competitors use. They often have
19 other forms of inducement, such as the convenience of a
20 single bill or frequent flyer miles and credit cards and
21 all kinds of other things that are customarily used to
22 bombard innocent customers. It happens all the time.

23 Q And when you say "the convenience of one bill",
24 can you explain what you mean by that?

25 A Well, there was a time when I got my long

1 distance bill from one company, my local bill from another
2 company, my internet telephony bill from a third, and my
3 cellular bill from a fourth. And we are rapidly reaching
4 the point where a single provider can provide all of those
5 services and, therefore, put them in one bill. And then I
6 have some way of pinpointing exactly what my monthly
7 expenditures are on these various forms of telephony.

8 Q With respect to toll in particular, at this point
9 in time certain carriers are permitted to offer interLATA
10 toll and Qwest is not; is that correct?

11 A That's correct.

12 Q And would that be another example with your bill
13 where inter and intra are combined in one bill?

14 A Absolutely. In my home state of Massachusetts,
15 that's becoming increasingly more common.

16 MR. REICHMAN: Can I have one minute to review my
17 notes, Your Honor?

18 ALJ CROWLEY: You may.

19 Q BY MR. REICHMAN: In your opinion, would these
20 competitive responses of other IXCs that you've been
21 talking about to Qwest's toll price changing, would those
22 be good for consumers?

23 MR. TRINCHERO: Your Honor, I'm going to object
24 again here. This goes far beyond the scope of redirect.
25 In fact, the last several questions have. Mr. Reichman had

1 indicated that he wanted to determine whether or not that
2 hypothetical was founded on reasonable assumptions. This
3 goes far beyond that, and I would object.

4 ALJ CROWLEY: I agree with Mr. Trincherro.

5 MR. REICHMAN: That's fine. I have no further
6 questions.

7 ALJ CROWLEY: Thank you. Mr. Trincherro, do you
8 have follow up or, Ms. Hopfenbeck?

9 MR. TRINCHERO: Yes. Just a few quick questions.

10 --ooOoo--

11 RE CROSS EXAMINATION

12 BY MR. TRINCHERO:

13 Q Mr. Banerjee, I'll try not to keep you on the
14 stand all morning.

15 A That's perfectly all right.

16 Q You were asked by Mr. Reichman whether or not you
17 knew whether or not this data that you were using in your
18 tests that are reflected in AT&T 11, AT&T 12, whether that
19 data reflected the fact that United Telephone Company had
20 been authorized as a PTC. And you stated that you weren't
21 sure.

22 ALJ CROWLEY: Excuse me. For the record, PTC?

23 MR. TRINCHERO: I'm sorry. Primary toll
24 carrier.

25 ALJ CROWLEY: Thank you.

1 Q BY MR. TRINCHERO: In fact, however, you did not
2 identify that as a causal event in the way that you
3 identified EAS or equal access conversion; isn't that
4 correct?

5 A That's correct.

6 Q Okay. You also responded to some questions by
7 Mr. Reichman about the use of demand studies from the early
8 and mid-90's.

9 Has Qwest produced any studies in this
10 proceeding?

11 A I'm not aware of any.

12 MR. TRINCHERO: One moment, Your Honor.

13 ALJ CROWLEY: That's fine.

14 Q BY MR. TRINCHERO: Dr. Banerjee, one moment. You
15 were asked by Mr. Reichman about the Rappoport article that
16 we discussed earlier, whether the elasticity factor of
17 -0.44 would be appropriate to use in this case.

18 Are you aware of the elasticity factor that
19 Pacific Bell was proposing in that case?

20 A In which case?

21 Q In the 1995 proceeding that that study was -- it
22 was actually in a 1994 proceeding that's discussed in Dr.
23 Selwyn's testimony in which you rebut on page 41 of your
24 rebuttal testimony?

25 A Would you point me to the precise spot in Dr.

1 Selwyn's testimony, please?

2 Q It's the study that this article was talking
3 about. It was used in a California PUC proceeding in which
4 the California Commission adopted a -0.5 elasticity factor.
5 Are you with me?

6 A I'm aware that California adopted a -.5, yes.

7 Q And are you familiar with Pacific Bell's position
8 in that case as to the appropriate --

9 A No. I am familiar with what happened subsequent
10 to that leading up to the 1998 case.

11 Q Okay.

12 A In which witnesses for Pacific Bell established
13 that it should be a much lower number, -.2.

14 MR. TRINCHERO: Thank you. I have nothing
15 further.

16 ALJ CROWLEY: Any other follow up for Dr.
17 Banerjee? Thank you very much, sir. You're excused.

18 THE WITNESS: Thank you, Your Honor.

19 ALJ CROWLEY: Are we ready for Mr. Selwyn?

20 MR. TRINCHERO: Yes, Your Honor.

21 (Witness sworn by the Administrative Law Judge)

22 ALJ CROWLEY: Thank you. Please be seated.
23 State and spell your name for the record.

24 THE WITNESS: My name is Lee L. Selwyn. Spelled
25 S-e-l-w-y-n.

1 ALJ CROWLEY: Thank you.

2 --ooOoo--

3 DR. LEE L. SELWYN,

4 Thereupon called as a witness on behalf of AT&T, first duly
5 sworn, was examined and did testify as follows:

6

7 DIRECT EXAMINATION

8 BY MR. TRINCHERO:

9 Q Good morning, Dr. Selwyn.

10 A Good morning.

11 Q Do you have before you what has been marked as --

12 MR. TRINCHERO: I'm sorry, Your Honor. One

13 moment.

14 Q BY MR. TRINCHERO: AT&T/WorldCom 1?

15 A Yes, I do.

16 Q And if you'll give me a moment, I'll try to get

17 that before me as well. Here we go.

18 And is that your direct testimony in this case

19 sponsored on behalf of AT&T Communications of Pacific

20 Northwest Inc. and WorldCom Inc.?

21 A Yes, it is.

22 Q Do you have any corrections to that testimony?

23 A Yes, I do.

24 MR. TRINCHERO: Your Honor, I've handed out a

25 four-page document which has corrections to Dr. Selwyn's

1 testimony at pages 16, 17, 19, and 20.

2 Q BY MR. TRINCHERO: Dr. Selwyn, can you please
3 describe for us the genesis of these changes?

4 A Yes. Upon arriving in Oregon yesterday evening,
5 I was advised that during his testimony yesterday, Mr.
6 Teitzel had made certain corrections to his testimony that
7 involved numbers that I had cited in my testimony.

8 And, accordingly, I have modified my testimony to
9 reflect the changes that were made by Mr. Teitzel.

10 Q And those are the corrections that are reflected
11 here?

12 A Yes.

13 Q Would you please tell me whether or not the
14 changes that you've made here in response to Mr. Teitzel's
15 change to his testimony impacts your analysis?

16 A No, they do not. My analysis was presented for
17 the purpose of demonstrating the effects of the company's
18 proposal to reduce intraLATA toll rates by a dollar amount
19 that exceeded the proposed reduction in switched access
20 charges. That condition continues to apply and is
21 reflected in the modifications that I've made to my
22 testimony this morning.

23 Q Thank you. Do you have any other corrections to
24 AT&T/WorldCom 1?

25 A Yes, I do. I have one other correction which

1 appears at page 1 of my testimony on lines 7 and 8. My
2 business address has changed since the date that this
3 testimony was filed. So 1 Washington Mall which appears at
4 line 7A should be replaced with 2 Center Plaza. The
5 remainder of the address is correct.

6 Q Thank you. And do you also have in front of you
7 what has been marked as AT&T/WorldCom 2, AT&T/WorldCom 3,
8 AT&T/WorldCom 4, and AT&T/WorldCom 5?

9 A Yes.

10 Q And are these exhibits to your direct testimony?

11 A Yes.

12 Q And do you have any corrections to any of those
13 exhibits?

14 A Not that I'm aware of.

15 Q Thank you. Dr. Selwyn, with the corrections that
16 you've made, if you were asked these same questions today,
17 would your answers be the same?

18 A They would.

19 Q And would they be true and correct to the best of
20 your knowledge?

21 A Yes.

22 MR. TRINCHERO: Thank you. At this time I would
23 move admission of AT&T/WorldCom 1 through 5 and tender Dr.
24 Selwyn for cross.

25 ALJ CROWLEY: All right. No one registered

1 objections to those exhibits. They're admitted.

2 MR. TRINCHERO: Thank you.

3 ALJ CROWLEY: And I have Qwest.

4 MR. REICHMAN: Thank you. Just for
5 clarification, Dr. Selwyn, were these corrections marked
6 as a separate exhibit or were they marked as --

7 THE WITNESS: They were as corrected testimony.
8 You could use those as page inserts.

9 ALJ CROWLEY: So it's simply page inserts?

10 MR. TRINCHERO: Yes.

11 --ooOoo--

12 CROSS EXAMINATION

13 BY MR. REICHMAN:

14 Q Good morning, Dr. Selwyn.

15 A Good morning.

16 Q If I might go a little bit slow in the beginning
17 because I'm going to try to assimilate the changes that you
18 made. And we appreciate receiving those.

19 Your testimony asserts that if Qwest lowers its
20 ARPM for toll by 6.21 cents per minute and lowers access by
21 2.9 cents per minute, then it would reduce competitors'
22 margins by 3.3 cents; is that correct?

23 A Assuming the arithmetic is correct, yes.

24 Q I do want to make sure. I do have a little
25 calculator here. But I think I'm looking at -- do you want

1 to run those numbers for me?

2 Basically we're subtracting the Qwest
3 reduction -- we're taking the Qwest reduction of 6.21 and
4 subtracting from that the Qwest proposed access charge
5 reduction of 2.9. And that gets 3.31 cents?

6 A Correct.

7 Q Okay. Now, does that testimony assume that
8 competitors will match Qwest's price decreases?

9 A Generally it does, yes. It assumes the market is
10 sufficiently competitive, that the competitors would be
11 compelled to match Qwest's price decreases, which, in fact,
12 has been the pattern throughout the long distance industry
13 for the past decade or more.

14 Q And do you believe that it's likely that
15 competitors will match the Qwest price decreases?

16 A Yes.

17 Q Particularly AT&T and WorldCom, your clients
18 here?

19 A I believe that competitors will be compelled to
20 adjust their prices in some manner that would reflect the
21 lower price level in the market that would be established
22 by the price leader, Qwest in this case. Whether that is
23 done in the form of simply a direct reduction to the per
24 minute rate or through the introduction of different types
25 of packages or programs, I can't say. But I believe that

1 the market -- marketplace forces will force this type of
2 response. And that certainly has been the experience in
3 any number of other jurisdictions.

4 Q And just so we're clear, when I say "match the
5 price decrease", your assumption assumes that the ARPM are,
6 the average revenue per minute, of the other competitors
7 would drop by precisely the same amount that Qwest would be
8 dropping by?

9 A Well, for the purpose of this discussion, it
10 makes that assumption. The reduction could be more. It
11 could be less. But it would be reasonable to assume in a
12 competitive market when you're dealing with a service that
13 is relatively undifferentiated, and intraLATA toll does
14 certainly fall within that category, that you would expect
15 to see market prices track one another from all of the
16 providers.

17 Now, this may not happen instantly. It may take
18 a month or two for the adjustments to occur. But generally
19 speaking, the experience has been in both the intraLATA and
20 interLATA markets in the interstate and intrastate markets
21 that as access charges drop and as the price levels of the
22 dominant carriers where there is a dominant carrier drop,
23 that the market is compelled to respond.

24 In the interstate market where we no longer have
25 a dominant carrier, reductions are generally driven by

1 access charge decreases. And, in fact, in tracking what
2 we've done -- it can be shown that reductions have actually
3 exceeded reductions, that is retail toll reductions, and
4 user prices have exceeded the reductions in switched access
5 charges that have been accomplished over time.

6 So I think there's every reason to expect that
7 competitive interexchange carriers will be pressured into
8 reducing their retail prices by at least as much as Qwest
9 is reducing its retail prices.

10 Q And just so we're clear, your assumption here is
11 that it would be an exact match in reduction, that's the
12 assumption in your testimony, that the price reduction
13 would -- the competitors would reduce prices by the same
14 amount?

15 A Well --

16 Q I just want to establish that's what you're
17 assuming in this example.

18 A Let me respond in this way. I mean, obviously,
19 the numerical values shown here make that assumption.

20 Q That's all I wanted.

21 A The substance of my testimony does not require
22 that precisely that to the second decimal place occur. My
23 testimony is that there will be price reductions in the
24 market generally corresponding to the price reductions that
25 will be effected by the dominant carrier. Whether it comes

1 out through precisely the same to the second or third
2 decimal place, I can't say. And it's not important.

3 Q And, in fact, it's plausible that competitors
4 would reduce prices by a somewhat lesser amount than Qwest
5 does and perhaps offer other incentives to other customers;
6 isn't that possible?

7 A Other incentives can be translated into price
8 effects. So I think you have to look at the totality. If
9 an incentive, for example, is in the form of a frequent
10 caller discount program, then that's -- that in itself
11 represents a volume discount to certain categories of
12 customers and would constitute part of the price.

13 So I would not divorce that from the analysis of
14 price. This is the point that I was making in response to
15 a question you asked me a few minutes ago. And that is
16 that the price reduction may not necessarily take the form
17 of precisely a reduction in the per minute rate. There are
18 other ways that price can be reduced, such as by
19 introducing various other types of non-dollar or
20 non-specific price inducements. But the effect is still a
21 price decrease. And that's what I'm suggesting will occur.
22 And certainly based on experience in this industry over an
23 extended period of time, one can reasonably make that
24 assumption. And, indeed, there's no reason to believe -- I
25 would think it as likely that competitors might find that

1 their -- that their rates could go down by even more than
2 Qwest's, slightly than -- even less.

3 I mean, the point is it will be of the same
4 magnitude. And I'm certainly not prepared to testify that
5 it will be precisely the same to the third decimal place.
6 But it will be approximately the same and it might be a
7 teeny bit more or a teeny bit less.

8 Q Understood. Based on the assumptions in your
9 testimony, you conclude that a Qwest price reduction in the
10 ARPM set forth here combined with a switched access
11 reduction as proposed by Qwest would collapse competitors'
12 gross margin by about 3.3 cents, correct? Am I reading it
13 correctly?

14 A That's what the testimony says. Although, I
15 think in reflection, gross margin may be an incorrect
16 choice of term. It will reduce the amount by which
17 competing carriers have to cover their other operating
18 costs. And some of that represents profit. But a
19 substantial portion of it, in fact, represents non-access
20 costs that the carrier is required to incur in order to
21 provide a retail service.

22 Q Dr. Selwyn, am I reading your testimony correctly
23 when it says collapsing the competitors' gross margin by
24 about 3.3 cents?

25 A You're reading it correctly. And I've just

1 clarified what I meant by "gross margin".

2 Q Are you aware that WorldCom's average gross
3 margin for intraLATA toll service --

4 MS. HOPFENBECK: Excuse me.

5 MR. REICHMAN: I'm sorry.

6 MS. HOPFENBECK: I'm just concerned.

7 Confidential.

8 MR. REICHMAN: What I'm about to say will
9 introduce some confidential information.

10 ALJ CROWLEY: Thank you. Is everyone here a
11 signatory to the protective order? If there are any
12 non-signatories, will you leave the room at this point.
13 Thank you.

14 MR. REICHMAN: Thank you. I apologize for the
15 oversight.

16 Q BY MR. REICHMAN: Dr. Selwyn, are you aware that
17 WorldCom's average gross margin for intraLATA toll service
18 above the price it pays to Qwest for switched access
19 service on a minute per minute of use basis is XXXX?

20 A I'm not specifically aware of that.

21 Q Okay.

22 A It's certainly possible. And I assume you have a
23 document that will support it.

24 Q Of course. And I apologize. This is also
25 confidential. I apologize for not copying it on yellow

1 paper. But just to be clear, this is a confidential paper.

2 A I have a yellow marker. I'll mark it in yellow.

3 Q Can you highlight all of them?

4 A Subject to amount of ink.

5 MS. HOPFENBECK: We're going to replace the white
6 pages with yellow. I want to make sure that the record
7 copy is yellow.

8 THE WITNESS: Just remember that Qwest is not in
9 the yellow pages business anymore.

10 MS. HOPFENBECK: Larry, do you have two?

11 MR. REICHMAN: Sure. I have plenty.

12 MR. TRINCHERO: Thank you.

13 MR. REICHMAN: Your Honor, do you know what
14 exhibit we would be up to?

15 ALJ CROWLEY: Yes. You would be up to 232 I
16 believe.

17 MR. REICHMAN: 232?

18 ALJ CROWLEY: Yes.

19 THE WITNESS: Sorry. What exhibit number?

20 ALJ CROWLEY: 232.

21 MS. HOPFENBECK: Your Honor, can I interject? I
22 just want to make sure, it's my understanding, correct,
23 that the portion of the transcript that follows Mr.
24 Reichman's statement that what he's about to say is
25 confidential will be sealed?

1 ALJ CROWLEY: Correct.

2 MS. HOPFENBECK: Okay.

3 ALJ CROWLEY: They'll be a public transcript and
4 then there will be a sealed portion that will accompany the
5 transcript for signatories.

6 MS. HOPFENBECK: Thanks.

7 Q BY MR. REICHMAN: Dr. Selwyn, do you have in
8 front of you the document that's been marked as Exhibit
9 Qwest 232?

10 A Yes.

11 Q And do you recognize this to be WorldCom Inc's
12 supplemental responses to Qwest's second set of data
13 requests?

14 A That's what it appears to be. I don't know that
15 I've necessarily seen this document before. I can't say
16 that I recognize it.

17 Q That's what it appears to be?

18 A That's what it appears to be.

19 Q And if I could ask you to turn to the third page
20 of that document.

21 A Yes.

22 Q XXX
23 XXX
24 XXX
25 XXX

1 XXXXXXXXXXXXXXXXXXXXXXXX?

2 A That's what it says, yes.

3 Q Thank you.

4 MR. REICHMAN: Your Honor, we would move the
5 admission of Exhibit Qwest 232.

6 ALJ CROWLEY: Any objection?

7 MS. HOPFENBECK: No objection.

8 ALJ CROWLEY: It's admitted.

9 MR. REICHMAN: Thank you.

10 MS. HOPFENBECK: However, I would like to request
11 that Qwest substitute a yellow sheet for the confidential
12 attachment which is reflected on page 3 for the record so
13 that there's no confusion.

14 ALJ CROWLEY: And Mr. Reichman indicates that
15 he's willing to do that.

16 MS. HOPFENBECK: Thank you.

17 MR. REICHMAN: And just in advance, I believe
18 several of our exhibits we will have to do that for. And
19 we'll commit to do that right now.

20 MS. HOPFENBECK: Thank you.

21 ALJ CROWLEY: Thank you.

22 Q BY MR. REICHMAN: Dr. Selwyn, you state in your
23 testimony that when any carrier other than Qwest --

24 ALJ CROWLEY: Excuse me. Are we unconfidential
25 at this point or are we still in the confidential area?

1 MR. REICHMAN: We are unconfidential for a short
2 period of time and then we make it confidential again. But
3 right now we're unconfidential.

4 ALJ CROWLEY: All right.

5 MR. TRINCHERO: Your Honor, if I might ask a
6 clarifying question?

7 ALJ CROWLEY: Yes.

8 MR. TRINCHERO: It is unclear whether a signature
9 by a lawyer in a law firm on the protective order covers
10 all other associates and partners in that law firm. We've
11 taken the position that it does. However, in an abundance
12 of caution, I have sent an associate out of the room. I'm
13 wondering if we can get clarification on that. Would Qwest
14 have a problem if that --

15 MS. HOPFENBECK: It's my confidential
16 information.

17 MR. TRINCHERO: Oh, I'm sorry. It's your
18 confidential information. Would you have a problem if we
19 brought that person back?

20 MS. HOPFENBECK: I don't have a problem. I would
21 like her to sign the protective order in this case.

22 ALJ CROWLEY: That would solve all problems if
23 she would do that.

24 MR. TRINCHERO: Great. Thank you.

25 MS. HOPFENBECK: She can do that later.

1 MR. TRINCHERO: Thank you.

2 MR. REICHMAN: Is she the only one that left?

3 MR. TRINCHERO: Yes, she's the only one that
4 left.

5 MR. REICHMAN: That will make it easier. I guess
6 for the record, this next portion is not confidential.

7 ALJ CROWLEY: Thank you.

8 Q BY MR. REICHMAN: Dr. Selwyn, you state in your
9 testimony when any carrier other than Qwest provides
10 intraLATA toll service, the carrier must purchase switched
11 access from Qwest in order to originate and terminate the
12 intraLATA call from or to a Qwest local service customer;
13 is that correct?

14 A Correct.

15 Q Isn't it true that IXCs provide intraLATA toll
16 service in some instances without paying switched access
17 charges?

18 A I just want to make sure that you're not
19 suggesting that the statement you referred to me was
20 incorrect.

21 Q I am not.

22 A Okay.

23 Q Well, I am. Excuse me.

24 A Well, then let's go back to the statement that
25 you referred me to. Where is that exactly?

1 Q Page 18, lines 3 and 4 of your testimony.

2 A The statement says, just to make it clear, that
3 intraLATA toll -- sorry. That switched access purchases
4 from Qwest are required for origination and termination to
5 a Qwest local service customer. That is a true statement.

6 It is also true that there are situations where
7 an interexchange carrier might originate or terminate
8 traffic to a carrier -- to a customer via a service that is
9 not Qwest local service. But where Qwest is providing the
10 local service, then, to best of my knowledge, there is no
11 other way that the carrier can terminate or originate to
12 that Qwest local service without paying switched access
13 charges to Qwest.

14 Q Well, let's explore that, shall we. Assume that
15 there is a customer in Oregon that is a business that
16 obtains local service from Qwest.

17 A Correct.

18 Q Assume that that customer has a high volume of
19 toll calls.

20 A Okay.

21 Q Isn't it correct that that customer could also
22 connect to an interexchange carrier other than Qwest
23 through use of what's commonly referred to as a special
24 access circuit?

25 A That's correct. And in that case, that customer

1 would not be for that purpose a Qwest local service
2 customer.

3 Q Well, I think we already established in my first
4 question that that customer was getting local service from
5 Qwest; didn't we?

6 A Well, the question -- the customer is also
7 getting pizza from Dominoes. But in the context of your
8 question, for purposes of the origination of traffic over
9 special access line, the customer is not a Qwest local
10 service customer.

11 Q The special access in this case -- let's assume
12 this: That the special access circuit connects that
13 business customer directly with an interexchange carrier,
14 such as AT&T.

15 A Okay.

16 Q And that they are only sending toll traffic over
17 that special access circuit.

18 A Right.

19 Q And is that -- would you say that that is a
20 configuration of telecommunications traffic that is not
21 uncommon?

22 A It's not uncommon. It's also not Qwest local
23 service.

24 Q But that Qwest customer is buying Qwest local
25 service, was buying local exchange service from Qwest; is

1 that correct?

2 A That's correct. For purposes of originating
3 local calls and for terminating local and in most cases
4 toll calls, with the exception perhaps of 800 traffic.

5 Q Well, isn't it possible that that customer routes
6 all of its originating toll traffic over the special access
7 circuit?

8 A Originating, yes.

9 Q Is it possible that it would -- it could route
10 terminating toll traffic over that special access circuit?

11 A Other than 800 service, it would be unlikely.

12 Q But 800 service could be routed over that?

13 A That's correct. And we normally refer to this as
14 the closed end to avoid the use of confusion between the
15 terms "originating" and "terminating". Originating outward
16 traffic and terminating inward traffic are generally
17 considered in the same category. They are both candidates
18 for special access.

19 Q Okay.

20 A But terminating cent paid traffic where the
21 calling party is paying for the call and is just dialing an
22 ordinary North American number is typically delivered over
23 Qwest local service common lines and would be subject to
24 access charges. Even where the customer was using special
25 access for call origination.

1 Q But the traffic that that customer sends over the
2 special access circuit, the toll traffic, there are no
3 special -- switched access charges incurred in connection
4 with that traffic, correct?

5 A That's correct.

6 Q Thank you. Dr. Selwyn, you're familiar with some
7 California proceedings in 1995 and 1998? And perhaps was
8 it 1994 and 1998?

9 A The decision in the '94 proceeding that you're
10 referring to was issued in 1994, but the proceeding
11 actually occurred previously.

12 Q Right. And in 1998, the California PUC reduced
13 intraLATA toll and switched access for Pacific Bell in the
14 context of a \$305 million revenue reduction, correct?

15 A That's correct.

16 Q In that case AT&T and MCI argued that the
17 California PUC should reduce switched access to economic
18 cost, correct?

19 A I believe that's correct. I was not a
20 participant in that proceeding and I'm not as familiar with
21 it as I am in the earlier one where I was a participant.

22 Q But you believe that's correct?

23 A I believe so, yes.

24 Q And you believe that they made that argument.
25 And in support of that argument they said that that was

1 required to avoid a price squeeze; is that correct?

2 A That detail of their argument I'm not familiar
3 with.

4 Q Now, it's true that the PUC rejected that
5 argument, did it not?

6 MR. TRINCHERO: Your Honor, I'm going to object.
7 The witness said that he is not sure whether or not that
8 argument was made.

9 MR. REICHMAN: Well, I apologize. I may have
10 been unclear.

11 Q BY MR. REICHMAN: It's true in that case, the
12 California PUC did not reduce switched access charges to
13 economic costs; is that correct?

14 A I believe that's correct, yes.

15 Q And, indeed, isn't it true at any time that the
16 California PUC found that the price floors that the
17 Commission had established were sufficient to prevent anti-
18 competitive behavior?

19 A If you're asking me to recite from memory the
20 text of the decision, I can't. Presumably if that text was
21 in the decision, it will speak for itself.

22 Q Thank you. And it is. I thought you might be
23 aware of that. And I appreciate that you're not.

24 MR. REICHMAN: It is a published decision and we
25 do not intend to introduce it as an exhibit, but we would

1 cite to it in our brief, Your Honor.

2 Q BY MR. REICHMAN: Now, are you also aware in that
3 case AT&T, MCI and Sprint pledged to the California PUC
4 that they would pass through the entire amount of any
5 switched access rate reductions to consumers in the form of
6 lower intraLATA toll rates?

7 A Yes, I believe that's correct.

8 Q And, indeed, the California PUC relied on that in
9 ordering some reductions in switched access rates,
10 correct?

11 A That's correct.

12 Q Has AT&T been squeezed out of the intraLATA toll
13 market in California?

14 A I'm trying to parse your question very
15 carefully. If I interpret your question to mean has AT&T
16 exited the intraLATA toll market in California, the answer
17 is, obviously, no. If your question is has AT&T
18 experienced a price squeeze in the intraLATA toll market in
19 California, the answer is I don't know.

20 Q Okay. The same question for WorldCom. Have
21 they?

22 A The same answers.

23 Q Same answers for WorldCom?

24 A Yes.

25 Q So they have not exited the market, neither of

1 those companies has exited the intraLATA toll market in
2 California?

3 A To the best of my knowledge, that's correct.

4 Q And that's despite that switched access rates
5 were not reduced to economic costs, correct?

6 A They have -- that wasn't your previous question,
7 so I'm --

8 Q Well, I'm kind of going back a couple of
9 questions.

10 A Yeah.

11 Q The California PUC did not reduce switched access
12 rates to economic costs?

13 A That's right.

14 Q And AT&T, WorldCom are still active in that
15 market; is that correct?

16 A To the best of my knowledge.

17 Q And they're still active in that market even
18 though they have passed through the entire amount of
19 switched access reductions to their toll customers,
20 correct?

21 A They have passed through the entire -- yes,
22 that's correct.

23 Q Thank you. Let's move on to the issue of price
24 elasticity. You testified that price elasticity tends to
25 increase as the price of a product or service increases,

1 correct?

2 A Or higher. As one looks at a higher price, then
3 one would expect a higher elasticity being equal, yes.

4 Q I just want to make sure I understand that. Do
5 you mean to say that a given product will show a greater
6 demand response to price changes at higher prices than it
7 would at lower prices?

8 A All else being equal, yes.

9 Q And do you also agree that demand response to a
10 price decrease decreases at lower prices, or is lower than
11 it would be at a higher price I guess is sort of the
12 reverse of that statement?

13 A Demand response to a given percentage of price
14 reduction will be less where the starting price is lower,
15 all else being equal.

16 Q Thank you. And do you also agree that a product
17 might also exhibit a near inelastic demand at a relatively
18 low price?

19 MR. TRINCHERO: Excuse me, Your Honor. I guess
20 I'd object to the use of the term "relatively low price".
21 I guess relative to what?

22 MR. REICHMAN: Well, I'm referring to Dr.
23 Selwyn's testimony at page 43, lines 19 to 20 where he
24 says, "A product might exhibit a near inelastic demand at a
25 relatively low price."

1 MR. TRINCHERO: Thank you for that
2 clarification.

3 ALJ CROWLEY: Since it's the witness's language.

4 Q BY MR. REICHMAN: I'm reading that correctly, am
5 I not, Dr. Selwyn?

6 A That's what I said then. I still agree with it.

7 Q Okay. You also testified that market elasticity
8 tends to be a lower figure than firm elasticity; is that
9 correct?

10 A Yes.

11 Q And firm price elasticity assumes that all other
12 firms hold their prices constant?

13 A Correct.

14 Q In response to a price change?

15 A Correct.

16 Q Now, you testified in this case that competitors
17 in the market will implement corresponding price decreases
18 to Qwest?

19 A Correct.

20 Q If all firms participating in the market reduced
21 their prices to the same degree, aren't they, in effect,
22 acting as one firm, and wouldn't it be more appropriate in
23 that context to consider the market elasticity as to a firm
24 elasticity?

25 A Absolutely. And that's, in fact, exactly what

1 I've relied on because the previous studies that I referred
2 to, including the work done by the California PUC in the
3 1994 case, were during a time when, in fact, the incumbent
4 LECs, Pacific Bell and General Telephone Bell in California
5 in that case, were essentially monopoly providers of
6 intraLATA toll service. So the market and the firm were
7 the same.

8 So the absolute most conservative approach
9 possible is to assume that the market elasticity is
10 controlling and not to look at the firm elasticity. And
11 that's exactly what I have done for exactly that reason.

12 Q Thank you. You advocate that this Commission
13 should adopt the -.05 figure that the California PUC used
14 in 1994, correct?

15 A Yes.

16 Q At the time that the California PUC made that
17 decision, there was no competition for intraLATA toll; is
18 that correct, in California?

19 A Well, actually no, that's not correct.
20 Concurrent with that decision was a -- that decision was in
21 the rate design implementation phase of the California
22 PUC's new regulatory frameworks investigation which
23 actually began in 1987.

24 And in that same decision, which was D94-09065,
25 the Commission adopted major rate design changes, including

1 the very large reduction in toll rates, but at that time
2 opened the intraLATA toll market competition beginning
3 concurrently with the effective date of the rate
4 reductions.

5 Q So just to be clear --

6 A So just to be abundantly clear, the precise
7 wording of your question was at the time that the decision
8 was issued there was no competition. However, during the
9 time that the decision was intended to be operative, which
10 was on or after January 1, 1995, there was competition in
11 intraLATA toll in California and the Commission's decision
12 was absolutely in an anticipation of opening that market to
13 competition.

14 Q I believe that is all correct. When they issued
15 the decision there was no competition for intraLATA toll in
16 California in 1994, correct?

17 A That's correct.

18 Q And the competition started on January 1, 1995?

19 A That's correct.

20 Q At that time there was no One Plus dialing parity
21 for intraLATA toll in California; is that correct?

22 A That's correct.

23 Q At either the time the decision was issued or in
24 1995?

25 A That's correct.

1 Q Now, in 1998 we've already talked about the
2 California PUC decision implementing a revenue reduction
3 for Pacific Bell. At that time they ordered reductions in
4 toll prices and switched access rates, correct?

5 A That's correct.

6 Q And at that time the Commission re-examined the
7 price elasticity of toll and ordered a lower stimulation
8 factor of $-.20$, correct?

9 A In conjunction with the price reduction that was
10 being ordered at that time.

11 Q Correct.

12 A It wasn't a correction. The Commission had
13 already on several occasions rejected efforts to revise the
14 previous toll price elasticity relative to the 1994
15 decision. But the 1998 decision was expressedly premised
16 on the reduction, the much lower reduction, starting out at
17 a much lower rate that was being ordered in that specific
18 case. So it wasn't a revision of the previous elasticity.

19 And I think the Commission is quite explicit
20 about that. It is adoption of a price elasticity given the
21 circumstances that were before the Commission in that
22 case.

23 Q And in that case they adopted a stimulation
24 factor of $-.20$?

25 A Correct. For both toll and switched access.

1 Q For both toll and switched access. Now, do you
2 know what -- what was the average revenue per minute for
3 Pac Bell toll prior to the price change there?

4 MR. TRINCHERO: I'm sorry. Can I just ask a
5 clarification? Prior to which price change?

6 MR. REICHMAN: Prior to the price change ordered
7 in 1998.

8 MR. TRINCHERO: Thank you.

9 THE WITNESS: I was looking for the ARPM numbers
10 and could not find them. And I'm not sure, if they
11 existed, whether they were in the public record or not. I
12 did include an Exhibit AT&T/WorldCom 3, the rates that were
13 adopted, the original rates that started out in 1989, the
14 rates adopted in '94 and then the rates adopted in '98,
15 and the percentage changes associated with those.

16 Q And there's not an ARPM calculated there,
17 correct?

18 A No.

19 Q Isn't it true that the California PUC lowered
20 basic MTS rates in 1998 by 29 percent?

21 A Yes. That's what this table would demonstrate.

22 Q Thank you. Now, you said that the -- well, when
23 the California Commission ordered a -.20 in 1998, they
24 stated that that decision reflected recent market charges,
25 correct?

1 A Yes.

2 Q And one of those changes would be the
3 introduction of intraLATA toll competition on 1-1-95,
4 correct?

5 A Yes.

6 Q Now, in 1998, there was still no One Plus dialing
7 parity for intraLATA toll in California, correct?

8 A That is correct. Although the Telecom Act was
9 law at that point, and the date at which One Plus would
10 have to be implemented was certainly known.

11 Q Didn't the California Commission state in its
12 1998 order that One Plus dialing parity for intraLATA toll
13 would not be introduced until Pacific Bell received
14 authorization to provide intraLATA toll service?
15 Are you aware they said that in their order?

16 A I have a vague recollection that they did say
17 that, yes.

18 Q Were you asked by either AT&T or WorldCom to
19 perform an elasticity study for the Oregon toll market?

20 A No.

21 Q Did you do so?

22 A I did not.

23 Q Let's move to the topic of imputation. Isn't it
24 true that AT&T and WorldCom can and do bill their customers
25 directly for long distance calls?

1 A They can. And they do in some but not in all
2 cases.

3 Q Didn't AT&T recently decide to charge its
4 customers a dollar fifty per month if they do not elect to
5 receive an AT&T long distance bill separately from the
6 local phone company?

7 A Or if they do not elect to receive their bill
8 over the internet is my understanding of the offer. In
9 other words, the customer can either receive the bill from
10 AT&T in paper or receive the bill over the internet. But
11 if they want the bill combined with their local phone
12 company, then there is a surcharge.

13 Q Of a dollar fifty per month?

14 A I believe that's correct.

15 Q And just to be clear, the options that AT&T gave
16 were you can receive your bill directly from AT&T by paper
17 or you can receive your bill from AT&T over the internet,
18 in which case there would not be an additional charge, or
19 you could receive it included in your local phone bill, in
20 which case AT&T would charge a dollar fifty per month; is
21 that correct?

22 A Yes, that's my understanding of the
23 announcement. Something to that effect.

24 Q Right. And it's your understanding that that is
25 a nation-wide practice now?

1 A I don't know.

2 Q Would you agree that this shows that AT&T is
3 trying to encourage its customers to receive long distance
4 bills directly from AT&T?

5 A It would certainly have that effect. And I would
6 assume that that effect was known to AT&T. Whether that
7 was the sole reason or whether it was -- there were a
8 combination of reasons, including perhaps the belief that
9 the fee that AT&T was being forced to pay the local
10 companies was higher than AT&T was able to accomplish the
11 billing function itself, I don't know.

12 Q Thank you. I have no further questions for --

13 MR. REICHMAN: Could you hold on one second?

14 ALJ CROWLEY: Sure.

15 MR. REICHMAN: Excuse me. Thank you. I have no
16 further questions for Dr. Selwyn.

17 ALJ CROWLEY: Thank you. Staff?

18 MR. WEIRICH: I might, depending on the answers,
19 go on for 45 minutes or so.

20 ALJ CROWLEY: So you're suggesting --

21 MR. WEIRICH: Do you want to proceed or take a
22 lunch break now?

23 ALJ CROWLEY: Do you want to take a lunch break
24 now and we'll convene at 1:15?

25 MR. TRINCHERO: Could we perhaps do 1:30? It's a

1 little bit hard to get in and out.

2 ALJ CROWLEY: That's fine with me. We will
3 convene at 1:30.

4 (Recess taken)

5 ALJ CROWLEY: Cross examination for Dr. Selwyn by
6 Staff?

7 MR. WEIRICH: Thank you.

8 CROSS EXAMINATION

9 BY MR. WEIRICH:

10 Q Good afternoon, Mr. Selwyn. I'm Mike Weirich for
11 Staff.

12 A Good afternoon.

13 Q I'd like to ask you a question about stimulation
14 demand response for the intraLATA toll market for three
15 different time periods, but I have one question for those
16 three time periods.

17 So keeping in mind the time period about the late
18 1980s, the test year period of approximately 1997, and the
19 current year 2000 -- the last year 2000, is it your
20 position that the intraLATA toll competition has been
21 increasing in
22 each of those three periods or not?

23 In other words, as --

24 A As you move from the late '80s to '97 and to the
25 current time?

1 Q Yes.

2 A Yes, competition has clearly been increasing.

3 Q What happens to market elasticity as the toll
4 market becomes more competitive?

5 A Well, that's a complex question. In a lot of
6 ways, one might say nothing. Market elasticity is --
7 represents the response by consumers to the level of price
8 in the market. When you have a single firm in the market,
9 the firm elasticity and the market elasticity are the
10 same. As the market becomes more competitive, then you
11 have multiple firms responding together so as to move the
12 market price up or down. Then all else being equal, the
13 consumer response should still generally track the market
14 demand, the market demand function.

15 Now, what does happen as the market becomes more
16 competitive, and this would certainly be true in the case
17 of toll, is that you see reductions in the overall market
18 price level. And due to reductions in the overall market
19 price level, you would expect to see at level prices
20 somewhat lower price elasticities, as I discussed this
21 morning in my cross examination by the company.

22 Q Okay. What happens to a firm elasticity as the
23 market becomes more competitive?

24 A Well, the firm price elasticity, if we define the
25 firm price elasticity as the impact on demand of a price

1 change made unilaterally by one firm, assuming that nothing
2 else happens in the market, that is that no other firms
3 respond, then the firm price elasticity tends to increase.

4 As the market becomes more competitive, as
5 consumers are able to substitute other service providers or
6 substitute among service providers, then a firm -- when one
7 firm lowers its price and all others hold constant, you
8 would expect to see consumers move -- shift from other
9 firms into the firm that lowered its price.

10 And, conversely, if that firm raises its price,
11 we would expect to see consumers shift out of that firm and
12 over to other firms. So that firm would experience, at
13 least in the short run, a higher price elasticity than the
14 market price elasticity.

15 Q Okay. If you could turn to page 64 of your
16 rebuttal testimony.

17 A Okay.

18 MR. TRINCHERO: Sorry. Mr. Weirich, I believe
19 you referred to that as rebuttal testimony. It's direct
20 testimony.

21 MR. WEIRICH: I'm sorry: It's direct testimony.
22 Thank you.

23 Q BY MR. WEIRICH: At line 11 you talk about the
24 FCC adopting a toll price elasticity of -0.723. Do you see
25 that?

1 A Yes.

2 Q And that came out in the 1990 order?

3 A The OEC price cap order, yes.

4 Q And I noticed that AARP's witness, Dr. Cameron,
5 stated that the FCC Staff used a price elasticity of $-.8$
6 in the FCC 2000 CALLS study.

7 And that's found at AARP 3, page 11 if you'd like
8 to check. You don't need to.

9 Would you agree that toll price elasticity has,
10 in fact, increased in the interLATA market in the last ten
11 years?

12 A Well --

13 MR. REICHMAN: Did you say inter or intraLATA?

14 MR. WEIRICH: Inter.

15 THE WITNESS: I would agree that if the FCC Staff
16 used $.8$ now and used $.723$ in 1989 to 1990 timeframe when
17 the record in the LEC price cap decision was being
18 developed, then certainly that would appear to be a
19 conclusion that the Staff reached. I did not participate
20 in that aspect of the CALLS proceeding, so I'm not familiar
21 precisely with what they did and how they did it.

22 Q BY MR. WEIRICH: Do you have your own opinion on
23 that?

24 A Well, it doesn't surprise me. I mean, we -- even
25 though rates are lower than they were, the toll demand

1 continues to grow at a very substantial rate. Consumers
2 have clearly reacted to the drop in toll rates by
3 increasing their consumption of toll services. And that
4 growth in toll services seems to track the continual
5 reductions in toll rates.

6 Q Do you know whether AT&T has lost market share
7 over the last ten years interLATA toll?

8 A Yes. Yes, I know and yes, they have.

9 Q All right. Thank you. Could you briefly
10 summarize the idea of the demand shift concept as you
11 understand it and explain your position on the use of
12 demand shift in a case such as we have here involving a
13 test year.

14 A I tried to do that through some graphs that I
15 included in my testimony. And allow me to try to find
16 them. They're at pages 54 and 55.

17 Q Okay.

18 A Basically there are a number of conditions that
19 can affect the consumer demand for product. One of those
20 conditions is the price of the product, which we refer to
21 sometimes as the own price effect. And that is portrayed
22 at the Figure 1 which is at the bottom of page 54.

23 And what you should see here is a situation where
24 if the -- if there is a demand function which is downward
25 sloping, that is it goes from northwest to southeast, from

1 the upper left to lower right corners, which is a normal
2 demand function that would be associated with the normal
3 good, and as the price decreases, the quantity demanded
4 increases, all else being equal. And so when we look at a
5 demand function of this sort, we -- it's
6 critically important that we assume all else being equal.

7 Now, what's relevant specifically for this case
8 is that what we're trying to do I believe in this case is
9 not forecast revenue in an absolute sense, but we're trying
10 to specifically isolate the effects of the price reduction
11 that would be adopted in this case for intraLATA toll
12 services and for intraLATA switched access services on the
13 demand for those respective services.

14 All else being equal, holding all else constant,
15 as those prices decrease, we would expect to see demand
16 increase and, therefore, the net change in revenue to the
17 company would be less than would be the case if we assumed
18 that demand remained constant.

19 Now, the conditions of a demand shift standing
20 alone without a price change are shown in Figure 2. And
21 here what we have is a constant price but various factors
22 have caused the demand to shift. And the demand could
23 shift either to the right or to the left, depending upon
24 conditions.

25 For example, if there are developments in the

1 market that, all else being equal, that would cause
2 consumers to increase consumption of a particular
3 commodity, of a particular product or service, then we
4 would expect the demand to shift to the right. And,
5 conversely, if there are developments in the market that
6 would cause a consumer to reduce consumption or at least
7 consumption that would be experienced by a particular firm,
8 then we would expect to see demand shift to the left.

9 So, for example, the introduction of competition
10 into the long distance market such as, for example, the
11 adoption of One Plus for intraLATA long distance service in
12 1999, which basically is the event that made competition
13 possible as a practical matter, would cause a left shift in
14 the demand function that would not confront Qwest, the
15 dominant incumbent carrier, which up until that point had
16 the One Plus advantage. That is they were the only
17 provider with One Plus.

18 So in that situation, we would -- we would expect
19 to see a reduction in demand as a result of competitive
20 losses, irrespective of whether any price change takes
21 place.

22 Now, what I've done on the third graph is to
23 combine these two effects. That is to have a shift in
24 demand to the left which would, for example, reflect that
25 competitive condition that we just discussed, but at the

1 same time show a price reduction.

2 And here what you have happening are two separate
3 phenomena. The left shift of demand tends to reduce the
4 quantity of demand, but the downward price tends to
5 increase the quantity of demand.

6 Now, if the purpose of this exercise were solely
7 to forecast revenue -- for example, if I were a financial
8 analyst attempting to figure out how to make a
9 recommendation for Qwest's stock and I wanted to try to
10 estimate what its revenue might be in the coming year,
11 based on the confluence of all the factors that the company
12 would confront, I would certainly be interested in doing
13 the kind of thing that's shown on Figure 3.

14 But that's not the question before this
15 Commission. The question before this Commission is limited
16 to what's shown in Figure 1, which is holding all else
17 equal, what is the effect of a price change. That is
18 whenever competitive losses resulted from One Plus, from
19 the internet, from cellular, from what have you, those
20 things already happened, they would have happened anyway.
21 They had nothing to do with the price change. What we have
22 is a price change.

23 And the question before this Commission is
24 limited to what change in the quantity demand will -- would
25 have resulted had this price change occurred in the next

1 year -- in the test year, all else being equal. And that's
2 the -- that's what's shown in Figure 1. And that's the
3 only question before this Commission. The rest of it is
4 simply spurious and irrelevant.

5 Q So Figure 3 in the concept of demand shifts has
6 an appropriate time and place, depending upon the question
7 you're being asked, such as you said, if you were a stock
8 market analyst?

9 A Yeah. If I'm sitting on Wall Street, I'm
10 certainly interested in Figure 3. But if I'm here in
11 Salem, I'm interested in Figure 1.

12 Q And the concept of a demand shift is irrelevant
13 for Figure 1 analysis?

14 A Correct. Because the demand shift occurs or
15 doesn't occur independently of the price change. The One
16 Plus, when the Commission adopted and implemented One Plus
17 in February of 1999, that event was dictated by the
18 Telecommunications Act of 1996 that was to occur three
19 years after enactment. It occurred three years after
20 enactment. It had nothing to do with would it have
21 occurred whether or not prices remained where they were in
22 the test period or were reduced in the test period.

23 And that event is simply outside the scope of the
24 question before this Commission at this time in this case,
25 which is what is the appropriate basis to make a

1 calculation of the net revenue change confronting Qwest as
2 a result of the toll rate reductions, toll and access rate
3 reductions.

4 Q Assume that the competitors follow suit and also
5 reduce rates in relation to a Qwest rate reduction, would
6 the elasticity then be like the market price elasticity as
7 to --

8 A Yes.

9 Q -- as opposed to a firm price elasticity?

10 A Yes. But in making my recommendation that the
11 Commission adopt the -0.5 price elasticity, that was, in
12 fact, a market price elasticity adopted by the California
13 PUC, it was not a firm price elasticity.

14 Q Now, you've considered Staff's recommendation of
15 -3. -- of -.3632?

16 A Yes.

17 Q If you had to have a range of a reasonableness
18 for market -- or for elasticities for this case, would that
19 be within a range of reasonableness?

20 A Well, it's within a range, but perhaps at the low
21 end. For example, the Rappoport and Taylor article that we
22 were talking about this morning that Dr. Banerjee had cited
23 concluded after looking at actual results in California
24 that the price elasticity should be -.44.

25 And what's interesting is that over lunch I had

1 someone in my office check to see what price elasticities
2 were actually proposed by Pacific Bell and GTE in that
3 proceeding, and they were actually -- well, Pacific's was a
4 proprietary number which the Commission characterized
5 similar to the GTE number. The GTE was $-.38$.

6 So what's interesting is that although the
7 Commission adopted number $.5$, the conclusion by Rappoport
8 and Taylor was that the actual result was higher than
9 either what GTE or Pacific had themselves put before the
10 Commission.

11 So I think, if anything, the number that Staff
12 has proposed here is -- well, is, obviously, well within
13 the reasonable range, is probably at the low end of that
14 range, and that the number that I'm suggesting and that the
15 Commission adopt, which is the one that the Cal PUC adopted
16 in that it did not modify until it was confronted with a
17 substantially different set of rate change events, despite
18 several efforts by Pacific, by the way, to get it to modify
19 that number in the intervening years, is a more reasonable
20 figure.

21 Q Turning to a slightly different topic. Have you
22 read Mr. Bailey's testimony found at Qwest 228? Mr. Bailey
23 was the sponsor of the 1990 elasticity study for Qwest.

24 A Yes, I do recall looking at it.

25 Q Okay. He had a concept called competitive

1 activity variable or CAV acronym. Do you recall that?

2 A Yes.

3 Q And basically he said that he hadn't used this
4 CAV in his study.

5 A Had not.

6 Q Yes, had not.

7 A Right.

8 Q Do you have any opinions as to what effect that
9 would have had on his price elasticity study if he had used
10 a competitive activity variable?

11 MR. REICHMAN: I'm going to object to the
12 question. I think it goes outside the scope of Dr.
13 Selwyn's testimony. There is nothing in his direct
14 testimony about Mr. Bailey. This is really asking for some
15 surrebuttal, which is not appropriate.

16 MR. TRINCHERO: Your Honor, if I might. Mr.
17 Bailey's testimony wasn't filed until after Dr. Selwyn's,
18 so, of course, he could not have responded to Mr. Bailey's
19 testimony. However, Dr. Selwyn's testimony addresses the
20 appropriate elasticity factor. And I think this line of
21 questioning goes to that.

22 ALJ CROWLEY: I'm going to allow it.

23 THE WITNESS: I'm not sure precisely how such a
24 variable would have operated in a model that he might have
25 developed at the time. If its effect would have been, for

1 example, to convert the result from a market price
2 elasticity to a firm price elasticity, then that probably
3 would not have been appropriate because it would have then
4 produced probably an overstatement of the price elasticity
5 by making a false assumption that competitors would not be
6 responding to a price change by the incumbent.

7 On the other hand, if the purpose was to somehow
8 create a factor that would adjust the competitive losses by
9 offsetting those against the stimulation effect, that would
10 also be inappropriate but for a different reason because
11 effectively it would be crediting the stimulated revenues
12 resulting from the price change by the competitive losses
13 that the company would have experienced as competition
14 develops in the market.

15 And that's simply inappropriate for a Commission
16 to do, to make the company whole when it loses business to
17 a competitor. If it does that, then you don't have a
18 competitive market because basically the company becomes
19 indifferent as to whether it provides the service or a
20 competitor provides the service if it's protected in that
21 manner.

22 Q In your opinion, if you have one, would a toll
23 price reduction increase both message volumes and call
24 holding times? The price reduction, would that increase
25 message volumes and would it increase call holding times,

1 all else being equal?

2 A It's hard to say. And I certainly haven't
3 studied it. My informed judgment would be that it would
4 probably have a greater effect on message volumes than on
5 holding times. But I can envision a situation where, you
6 know, for example, you know, you're in the middle of a call
7 and someone rings the door bell. And if the price per
8 minute is pretty high you basically say, I'll call you
9 back, hang up, go answer the door and then come back and
10 make the call again two or three minutes later.

11 Whereas as the price gets down to, you know, a
12 certain level, you might at that point say, you know, hang
13 on a second, let me answer the door, and then come back and
14 continue the phone call. So I suppose that, you know, at
15 the margin you could envision situations in which customers
16 would become sort of indifferent as to whether they simply
17 stay on the phone a little longer or, you know, place
18 multiple calls to the same person.

19 I wouldn't necessarily expect that it would
20 increase the call holding time all that much on, you know,
21 on an individual call in terms of a customer, you know,
22 placing the call to, you know, conduct a certain type of
23 conversation. Although I suppose one might expect some of
24 that.

25 I heard -- I was in the hearing room this morning

1 when Mr. Teitzel provided some data on call holding times
2 for businesses and residential customers. Those numbers
3 that he offered -- and I don't recall whether they were
4 proprietary or not, so I'm not going to repeat them -- but
5 my recollection is that they were pretty similar to the
6 kinds of numbers that I've heard for a long time like, you
7 know, like maybe even from ten years ago when we didn't
8 have competition. So it appears that the average holding
9 time may not have been materially affected by price
10 changes.

11 MR. WEIRICH: Could I have just one second?

12 ALJ CROWLEY: Sure.

13 MR. WEIRICH: That's all I have. Thank you.

14 ALJ CROWLEY: Mr. Trincherero?

15 MR. TRINCHERO: Thank you, Your Honor.

16 --ooOoo--

17 REDIRECT EXAMINATION

18 BY MR. TRINCHERO:

19 Q Dr. Selwyn, you were asked some questions by Mr.
20 Reichman regarding the introduction or lack thereof of
21 intraLATA dialing parity in California. And I just wanted
22 to make sure that the record is clear on that.

23 Isn't it true that the California Commission
24 issued an order in April of 1999 that directed Pacific Bell
25 to implement intraLATA dialing parity in that state?

1 A Yes, that's my understanding.

2 Q And, in fact, in that order the Commission
3 referenced an earlier 1997 order in which they had approved
4 the dialing parity plan that had been offered by Pacific?

5 A Yes.

6 Q And, in fact, in the 1999 decision, the
7 California Commission rejected a request by Pacific to
8 further delay implementation of intraLATA dialing parity?

9 A That is my recollection of the decision, yes.

10 Q Thank you. You were also asked some questions
11 about the California Public Utility Commission's decision
12 in 1994 in which it adopted the -.5 elasticity factor; is
13 that correct?

14 A Yes.

15 Q And I just wanted to make sure that we get the
16 record clear on this as well. Isn't it true that there was
17 a separate issue in that case regarding whether or not
18 Pacific should be made whole for competitive losses?

19 A Yes.

20 Q And that was separate and apart from the issue
21 relating to the proper demand elasticity for toll; is that
22 correct?

23 A That's correct, yes.

24 Q And, in fact, the Commission rejected Pacific's
25 request in that case to be made whole on competitive

1 losses; isn't that true?

2 A Absolutely.

3 MR. TRINCHERO: That's all the redirect that I
4 have. However, I'd like to turn it over to Ms. Hopfenbeck
5 for some additional redirect.

6 ALJ CROWLEY: All right.

7 MS. HOPFENBECK: Thank you.

8 --ooOoo--

9 REDIRECT EXAMINATION

10 BY MS. HOPFENBECK:

11 Q Dr. Selwyn, Mr. Reichman asked you some questions
12 about Qwest Exhibit 232. Do you have that before you?

13 A I do.

14 Q Now, directing your attention to the Confidential
15 Attachment A, which is the third page of that document.

16 A Yes.

17 Q First of all, I'd like to ask you, there was some
18 discussion about use of the term "gross margin" in your
19 testimony. Can you explain, please, what you meant by the
20 term "gross margin" as you used it in your testimony?

21 A I think, as I suggested in one of my responses
22 this morning, that it was probably not a correct choice of
23 term. What I was referring to was the difference between
24 the price of access that was paid by an interexchange
25 carrier and the retail price, the average retail price,

1 that the interexchange carrier got for the final service
2 that it provided, final intraLATA toll service.

3 The term "margin" is really not a correct
4 characterization of that because we're not engaged in a
5 pure resale activity here. There is value added in the
6 processing of the provisioning of the service. It would be
7 like saying, as an example, an automobile manufacturer,
8 say, buys tires from a tire manufacturer, maybe not
9 Firestone but somebody else. Say, for a set of four tires
10 for, say, \$300 and then sells the car for 20,000.

11 Now, no one would characterize the difference
12 between 300 and 20,000 as the gross margin on the car. In
13 other words, the 19,700.

14 And that is sort of the way that the term is
15 being used here. And it would be wrong for the case of the
16 automobile situation. It's wrong here as well because
17 between the time you get the tires from the tire company
18 and the time you ship the car off of the delivery dock,
19 there's an awful lot of other things that go into the
20 production of the car.

21 And it's similar for the case of long distance
22 service. Access is only one component of the provision of
23 a retail long distance service. There are other network
24 costs because the interexchange carrier may transport the
25 call between points of presence between different switching

1 points within the LATA. It has to account for the
2 traffic. It has to bill the traffic. It has to market the
3 service. It has to provide various levels of customer
4 service. All of which represent costs in addition to
5 access.

6 So that when we speak of margin, we're not
7 speaking of profit. We're simply speaking of the
8 difference between the retail pricing of the final product
9 and the price of one particular input, which in the case of
10 the automobile company are the tires and in the case of a
11 long distance carrier happen to be the access charges. But
12 it's only one of many. And margin is really not the
13 correct characterization.

14 Q Now, in that last answer I believe you were
15 referencing your use of the term in your testimony.
16 Looking at Qwest 232, WorldCom provided a response to the
17 question, "What is WorldCom's average margin for intraLATA
18 toll service in Oregon above the prices it must currently
19 pay Qwest for switched access service on a per minute of
20 use basis."

21 What is your understanding of what WorldCom was
22 providing as its current average gross margin for intraLATA
23 toll service in this response?

24 MR. REICHMAN: Objection. Lack of foundation.
25 There is no evidence that Dr. Selwyn was involved in

1 preparing this response. In fact, I think he had never
2 seen it before today.

3 ALJ CROWLEY: Would you like to lay a foundation,
4 Ms. Hopfenbeck?

5 Q BY MS. HOPFENBECK: Mr. Selwyn, do you, as we're
6 sitting here today, have an understanding of what the
7 response is --

8 A I have an understanding of what the question was
9 asking for. The question defines margin. I'm looking now
10 at page 1 of Exhibit Qwest 232 at line 25. "What is
11 WorldCom's average margin for intraLATA toll service in
12 Oregon above the prices it must currently pay Qwest for
13 switched access service."

14 So I would take that to mean take the gross
15 retail price and subtract the price that WorldCom must
16 currently pay Qwest for switched access service. And that
17 differential was what was being responded to.

18 Now, assuming that that is the case, then that
19 would correspond to my example of the \$300 versus the
20 \$20,000.

21 Q Thank you. Now I wanted to ask you, WorldCom's
22 response indicates that there's one margin which reflects a
23 current state-wide average gross margin for intraLATA toll
24 service in the first sentence. And then also has
25 represented in this response the current average gross

1 margin for intraLATA toll service above the price it pays
2 to Qwest.

3 Which of those numbers is the most significant
4 from an economic perspective?

5 A Clearly the first.

6 Q And why is that?

7 A Well, it's my understanding that WorldCom does
8 not differentiate the prices it charges its retail
9 customers based on whether it is paying switched access to
10 Qwest or to some other incumbent LEC or, for that matter,
11 even CLEC, in Oregon.

12 And, consequently, what matters as a business
13 matter from WorldCom's perspective in terms of the amount
14 by which it must cover all of the other non-access costs of
15 producing toll service, is that amount shown in response to
16 the first sentence.

17 If WorldCom charged a higher price or charged a
18 different price if the customer was using -- or one or both
19 ends of the call were not associated with a Qwest switched
20 access line, then we might be interested in the second
21 number. But it's my understanding that that is not the
22 case. We have a uniform retail price. And as a result,
23 the only important number here is the first number. The
24 second number is of really no consequence.

25 Q And as I understand your testimony, that in the

1 event that -- I mean, that the measure of the differential
2 between the average revenue per minute and the average
3 price paid for switched access service will not reflect the
4 profit of an interexchange carrier operating in the state
5 of Oregon; is that right?

6 A Any more than in my automobile example. That
7 19,700 is not the profit that the car manufacturer makes on
8 the car. It's not the profit.

9 Q Okay.

10 A It's simply the amount of revenue that is
11 available to cover the cost of all of the other inputs and
12 provide whatever profit that may be left.

13 MS. HOPFENBECK: I have nothing further. Thank
14 you.

15 ALJ CROWLEY: Any follow up, Mr. Reichman?

16 MR. REICHMAN: Yes, Your Honor. Thank you.

17 --ooOoo--

18 REXCROSS EXAMINATION

19 BY MR. REICHMAN:

20 Q Picking up on this last line of questioning
21 regarding the two different answers on gross margin, you
22 said that the first answer is more important as a business
23 matter. We're not looking at this as a business matter.

24 Isn't it true that for price squeeze purposes what
25 is important is what WorldCom pays to Qwest?

1 A Absolutely not. For price squeeze purposes what
2 is important is the average price that WorldCom pays for
3 switched access.

4 Q Do these numbers tell you, since the margin
5 state-wide is less than the gross margin -- I'm sorry. I
6 meant to use gross margin both times.

7 Since the gross margin state-wide is less than
8 WorldCom's gross margin with respect to Qwest's terminated
9 and originated calls, does that lead you to conclude that
10 local exchange carriers other than Qwest have higher
11 switched access charges than Qwest?

12 A That's what it would seem, yes.

13 Q If you're doing a price squeeze analysis with
14 respect to Qwest's switched access prices, isn't it
15 irrelevant what another company charges for switched
16 access?

17 A Well, let's think about that. If Qwest is the
18 toll carrier with respect to services that are either
19 originated or terminated or both to an independent company,
20 then it clearly is relevant that -- and if Qwest's price
21 when Qwest is the toll carrier is the same, whether or not
22 Qwest is the access provider or an independent company is
23 the access provider, then I would answer that it is
24 relevant to consider the access charges that are imposed by
25 the independent company in performing a price squeeze

1 analysis.

2 The only condition under which there might be
3 some question as to its relevancy is where Qwest is not the
4 toll provider. Such as, for example, in the cases where I
5 believe Sprint United might be the toll provider.

6 Q But if --

7 A In those cases -- excuse me. I'm not finished my
8 answer.

9 Q Sorry.

10 A In those cases, if Sprint United has a separate
11 toll tariff or does not -- that it does not concur in
12 Qwest's tariff, and if it were possible as a business
13 matter, for example, for WorldCom or an IXC to have charged
14 different prices in exchanges in which Sprint United were
15 the toll provider versus exchanges where Qwest is the toll
16 provider, then it might be appropriate in that circumstance
17 to exclude the Sprint United exchanges.

18 But if Sprint United concurs in the Qwest
19 tariff -- and I don't know one way or another if they do --
20 but if they do, then it would be appropriate to include all
21 exchanges in the state and to rely solely on that first
22 number.

23 Q If Qwest is a toll provider to a Sprint United
24 end user, doesn't Qwest pay Sprint United switched access
25 charges?

1 A Yes.

2 Q And those prices are Sprint's prices, not Qwest's
3 prices?

4 A Let me back up. I guess I don't actually know
5 the answer to that. Qwest may or may not, depending upon
6 various settlements or interconnection agreements. But
7 let's assume for the sake of discussion that they do.

8 Q Let's do that.

9 A And your question is?

10 Q My question is if Qwest provides toll service to
11 a Sprint United customer, Qwest pays Sprint United switched
12 access for originating or terminating that call, correct?

13 A That would be true.

14 Q The price squeeze examples that Ms. Starr
15 provided that you reference in your testimony, those
16 compare the situation where an IXC provides toll service to
17 a Qwest end user versus Qwest providing toll service to a
18 Qwest end user, correct?

19 And by "end user" I mean local service customer.

20 A I believe that's right.

21 Q So in that case, is it not only -- is it not that
22 the switched access prices with respect to terminating
23 calls to Qwest customers are the only relevant switched
24 access prices for a price squeeze analysis?

25 A Well, I think Ms. Starr's testimony may be unduly

1 conservative in that respect and perhaps should also have
2 included the I company access charges as well.

3 Q But it didn't, did it?

4 A No.

5 Q Thank you.

6 MR. TRINCHERO: Excuse me. Your Honor, just for
7 clarification of the record, I believe Dr. Selwyn said the
8 I company's charges. Dr. Selwyn, do you mean --

9 THE WITNESS: I meant --

10 MR. TRINCHERO: The independent companies,
11 independent local exchanges?

12 THE WITNESS: Independent, that is non-Qwest
13 incumbent.

14 ALJ CROWLEY: Thank you for the clarification.

15 MR. TRINCHERO: Thank you.

16 Q BY MR. REICHMAN: A couple of other areas. I
17 believe you referred earlier to what Pacific Bell, or at
18 least GTE had proposed for an elasticity factor in the 1994
19 California case?

20 A Yes.

21 Q Or the case that resulted in a '94 decision?

22 A Yes.

23 Q Pacific Bell proposed a -.20 in the '98 case; is
24 that correct?

25 A That's my understanding. Based on the facts that

1 were before the Commission in the '98 case, not based on
2 the facts that were before the Commission in the '94 case.

3 Q Of course. Earlier in response to Mr. Weirich's
4 questioning you stated your belief as to what is the
5 question before this Commission. And I believe you said
6 that the question before this Commission is to isolate the
7 effects of a price reduction with all else being equal
8 and that you should exclude the effects of demand shift
9 and the effects of competition; is that correct?

10 A That's correct.

11 Q So, in effect, if we refer to your charts on
12 pages 54 to 55, you're basically saying the question before
13 the Commission is what's referenced in Figure 1 and not --
14 and that the Commission should not be engaged in what may
15 be depicted in Figure 3; is that correct?

16 A That's correct, given the parameters of this case
17 and given the adoption of the test period for this case.

18 Q And you said that basically the Commission should
19 not be engaged in forecasting the revenue effects of the
20 price change.

21 A No, that's not what I said.

22 Q Only forecasting the revenue effects of the price
23 change.

24 A I said the Commission is not engaged in
25 forecasting revenues generally, considering all of the

1 various factors that may be involved. The Commission's
2 concern is limited to forecasting the effects specifically
3 of the price change, the change in revenues
4 that result from the price change, where we have a
5 reduction in price and an increase in demand volume. And
6 those two effects are -- those two effects are all that's
7 before the Commission -- or should be before the Commission
8 in terms of determining the revenue effect of that change.

9 Q So the Commission is determining a revenue effect
10 of a price change, correct?

11 A Of a price change.

12 Q And you believe that they should not consider
13 other revenue impacts of competition, all the factors that
14 have been called to manage it, correct?

15 A For the Commission to do that it would
16 effectively be making the company whole for competitive
17 losses. The Commission certainly shouldn't be doing that.

18 Q Now, is there any order by the Commission in this
19 docket that says that that -- what you have stated is the
20 question before the Commission?

21 A Yes. I believe that in establishing the test
22 year as it did, that the order -- the order before the --
23 the order issued by the Commission adopting a test year
24 effectively negates consideration of competitive conditions
25 that might have occurred subsequent in the test year.

1 Q And what is it in that order that leads you to
2 that conclusion?

3 A I don't -- I don't have the order before me. The
4 order would speak for itself.

5 Q You're aware that the Commission in this case
6 used a test year of 1995?

7 A For the purpose of the revenue reduction?

8 Q Correct. For purposes of revenue requirement,
9 are you aware that the Commission used a test year of
10 1995?

11 MR. TRINCHERO: Your Honor, I'm going to object
12 here because it mischaracterizes what the Commission has
13 done here. Yes, there was an order on a 1995 test year.
14 However, the revenue requirement that we are dealing with
15 in this rate design phase is the result of a stipulation.

16 MR. REICHMAN: I'll be getting to that.

17 ALJ CROWLEY: All right. I'm going to allow this
18 line of questioning. The caveat is that there is a
19 boundary beyond which we don't want to go.

20 Q BY MR. REICHMAN: Are you aware that the
21 Commission used a 1995 test year in establishing revenue
22 requirement?

23 A Not specifically.

24 Q Are you aware that the Commission ordered that
25 the rate design in this case would be quote, based upon

1 U.S. West's August, 1997 billing units, closed quote?

2 MR. TRINCHERO: I'm sorry. Mr. Reichman, is that
3 in the order adopting the stipulation?

4 MR. REICHMAN: Yes.

5 MR. TRINCHERO: Perhaps if you're going to ask
6 the witness questions about that order, we --

7 MR. REICHMAN: Well, I don't want to test him on
8 reading. I just want to ask him if he's aware of it
9 because he's testified that the Commission's order requires
10 a certain methodology.

11 THE WITNESS: I don't recall the specific
12 language. So the answer is as to the specific words that
13 you just cited -- recited, I'm not specifically aware of
14 it. If it's there, it's there.

15 Q BY MR. REICHMAN: Are you aware of anything in
16 any Commission order in this case that specifically lays
17 out the methodology the Commission should use, were it to
18 consider price elasticity? Specific language?

19 A I'm not aware of it one way or the other.

20 Q Are you aware of any specific language in any
21 order by the Oregon Commission that lays out the
22 methodology to use, should it consider price elasticity of
23 any service?

24 A I'm not aware of it one way or the other.

25 Q Are you aware of anything in Oregon law that sets

1 forth the methodology that this Commission should use,
2 should it consider price elasticity of a service?

3 MR. TRINCHERO: Your Honor, I've let this go on
4 for quite awhile.

5 MR. REICHMAN: It's my last question.

6 MR. TRINCHERO: I'm going to object to not only
7 the last question but move to strike the entire line of
8 questioning that had to do with this point because it is
9 not redirect. It's not recross. Dr. Selwyn was not asked
10 about this on redirect. And I thought we were opening this
11 to recross at this point.

12 MR. REICHMAN: This is a follow up to Mr.
13 Weirich's cross where Dr. Selwyn opined us as to what the
14 question before the Commission is. And I'm just trying to
15 establish the basis for what the question before the
16 Commission is.

17 ALJ CROWLEY: I think that's valid. I'm going to
18 allow him to continue.

19 Q BY MR. REICHMAN: And my last question is, is
20 there anything in Oregon law that you're aware of that sets
21 forth the methodology that this Commission should use
22 should it attempt to determine price elasticity effects of
23 a price change?

24 A Not aware of it one way or the other.

25 MR. REICHMAN: Nothing further.

1 ALJ CROWLEY: Any follow up to that?

2 MR. TRINCHERO: Yes. Thank you, Your Honor.

3 --ooOoo--

4 REDIRECT EXAMINATION

5 BY MR. TRINCHERO:

6 Q Just a couple of questions for you, Dr. Selwyn.
7 In responding to questions by Mr. Reichman regarding both
8 the 1994 and 1998 decisions by the California Commission on
9 price elasticity, you've referred a number of times to the
10 differing circumstances in those two cases.

11 Would it be fair to state that the primary
12 distinction between the circumstances the Commission in
13 California faced in 1998 and the circumstances they faced
14 in 1994 as it relates to setting the price elasticity is
15 that in the 1998 case the Commission was looking at a lower
16 starting price and a smaller rate decrease?

17 MR. REICHMAN: Objection, Your Honor. I'm sorry.
18 I'll let you finish the question, but I do have an
19 objection. Are you done?

20 MR. TRINCHERO: Yes.

21 MR. REICHMAN: Objection. This is not
22 appropriate re-redirect. I did not touch on this also.
23 That is a leading question.

24 MR. TRINCHERO: Actually, if we went back into
25 the -- if we went back into the transcript, you did, in

1 fact, touch on this.

2 MR. REICHMAN: Not in my last round of
3 questioning.

4 MS. HOPFENBECK: Yes.

5 MR. TRINCHERO: Yes, on the last round of
6 questioning.

7 MR. REICHMAN: I said what Pacific Bell had
8 offered.

9 MR. TRINCHERO: Right. And then you asked him
10 specifically about the '94 case and the '98 case. And the
11 witness testified in response to that that there were
12 different circumstances before the California Commission.
13 And I'm trying to clarify what those different
14 circumstances are.

15 MR. REICHMAN: Well, it's still a leading
16 question.

17 MR. TRINCHERO: And I will withdraw the leading
18 question and instead --

19 ALJ CROWLEY: Please rephrase the question. I
20 have in my notes that you did touch on that, Mr. Reichman.

21 Q BY MR. TRINCHERO: Dr. Selwyn, what were the
22 primary differences between the '94 case and the '98 case
23 that the California Commission was considering in setting
24 price elasticity?

25 A The '94 case involved rate reductions that were

1 comparable in magnitude both in terms of dollar amount and
2 the percentage to the rate reductions that are proposed by
3 Qwest in this proceeding.

4 Whereas the '98 case in California was the second
5 round of rate reductions. The starting off point was much
6 lower and the percentage reduction was significantly less.

7 And the California Commission expressly noted
8 this distinction in its 1998 order in which I quoted
9 specifically in my testimony.

10 Q You were also asked some questions by Mr.
11 Reichman regarding the basis for your statement that the
12 Commission should not be making Qwest whole for competitive
13 losses.

14 As an economist and as a witness that has
15 participated in numerous such cases in other states and in
16 this state previously, is it your opinion that that is an
17 appropriate thing for this Commission to be doing?

18 MR. REICHMAN: And I just want to object that
19 that mischaracterizes my question to the witness.
20 Questions.

21 ALJ CROWLEY: I'll note your objection. I don't
22 have the verbatim. But go ahead and answer, please.

23 THE WITNESS: Any policy that has the effect of
24 insulating the incumbent from competitive losses is --
25 would be highly detrimental to the development of

1 competition. It would put the incumbent in the position
2 where it alone is permitted to operate in a manner that
3 differs from that of its competitors.

4 It would put the incumbent in a position where,
5 irrespective of its actions, any losses it experiences, it
6 simply goes back to the well and is made whole by raising
7 rates in other -- in other common competitive services.

8 Effectively it would amount to a policy of
9 encouraging and permitting cross subsidization by
10 non-competitive services of the company's competitive
11 activities if, in fact, the Commission were to allow the
12 company to be made whole against competitive losses by
13 raising prices or failing to reduce by the full amount
14 prices for its non-competitive services, which, in fact, is
15 prohibited expressly in the Telecommunications Act, the
16 Federal Telecommunications Act, and perhaps even in Oregon
17 law, although I'm not precisely -- I can't cite
18 specifically where that may be the case. But it would
19 surprise me if Oregon law would also not prohibit that kind
20 of cross subsidization.

21 So it's bad public policy to permit and it
22 amounts to cross subsidization of competitive services by
23 non-competitive services.

24 Q Dr. Selwyn, just one more quick set of
25 questions. Mr. Reichman asked you about the price squeeze

1 analysis in Ms. Starr's testimony.

2 Do you happen to have Ms. Starr's testimony in
3 front of you?

4 A I don't.

5 MR. TRINCHERO: If I might approach the witness,
6 Your Honor?

7 ALJ CROWLEY: You may.

8 Q BY MR. TRINCHERO: Dr. Selwyn, I've handed you
9 what is marked as AT&T Exhibit 8. Are you familiar with
10 that exhibit?

11 A Yes.

12 Q Does that exhibit show Ms. Starr's price squeeze
13 analysis that Mr. Reichman was asking you about?

14 A Yes.

15 Q I bring your attention to the footnote. There's
16 a single asterisk footnote beneath the chart. It starts
17 with the words "assumes Qwest follows an imputed cost
18 rule".

19 A Right.

20 Q Do you see that? And then the last sentence in
21 that paragraph, isn't it true that that says, "This
22 analysis does not include independent company access
23 charges which would increase costs"?

24 A Yes.

25 Q And so it would have been perfectly appropriate

1 for Ms. Starr to include those costs in such an analysis;
2 she simply chose not to?

3 A Absolutely.

4 MR. REICHMAN: Objection. Objection to the
5 question. I don't know what it means "would have been
6 appropriate for her to".

7 MR. TRINCHERO: Your Honor, if I might. Mr.
8 Reichman was asking Dr. Selwyn whether or not it would be
9 appropriate in a price squeeze analysis to include the
10 access charges charged by independent companies.

11 Dr. Selwyn had indicated that in his opinion it
12 would be appropriate. In order to rebut that, Mr. Reichman
13 had pointed to Ms. Starr's analysis. I'm simply showing
14 that Ms. Starr's analysis expressly excluded that but
15 noted it would have been included. And I'm asking if
16 that's appropriate.

17 ALJ CROWLEY: Thank you. Did that address
18 your --

19 MR. REICHMAN: Well, I think he's just asking him
20 to restate what he's already said. So I object to it as
21 being cumulative.

22 ALJ CROWLEY: Go ahead and restate. It's okay.
23 It's tough subject matter.

24 Q BY MR. TRINCHERO: Do you need me to repeat the
25 question?

1 A No. As I indicated, it was my understanding, and
2 this chart confirms, that Ms. Starr considered only the
3 Qwest access charges in her analysis. I indicated earlier
4 that she was in that respect being conservative, that
5 perhaps she should have included the non-Qwest access
6 charges.

7 I would note that had she done that, that the
8 figure that is shown on the lower right-hand Table 0 for
9 gross margin would, in fact, at that point have become
10 negative.

11 MR. TRINCHERO: Thank you, Dr. Selwyn. I have
12 nothing further, Your Honor.

13 ALJ CROWLEY: Any follow up to that?

14 MR. REICHMAN: One follow up question.

15 ALJ CROWLEY: Yes.

16 --ooOoo--

17 REXCROSS EXAMINATION

18 BY MR. REICHMAN:

19 Q Dr. Selwyn, you testified about cross
20 subsidization I believe was the term you used between
21 services?

22 A Yes.

23 Q Are you aware that this Commission employs an
24 analysis in rate cases to make sure that there is not cross
25 subsidization between services, an imputation analysis?

1 A I'm aware of that, but that has nothing to do
2 with the point I was making in my response to Mr.
3 Trinchero's question.

4 What I was saying is that the practice of making
5 Qwest whole against competitive losses by allowing it to
6 raise rates for non-competitive services or permitting it
7 to decrease rates for non-competitive services by less than
8 it should, operates to create a cross subsidy; that is to
9 increase the price of the non-competitive services relative
10 to what they otherwise would have been so as to make Qwest
11 whole for competitive losses.

12 That by any definition is cross subsidization and
13 it is not captured in an imputation analysis because the
14 imputation analysis expressly does not consider a make
15 whole against competitive losses.

16 If you would have -- if you were to incorporate a
17 make whole provision as part of the imputation analysis,
18 then the price floor would be considerably higher than it
19 is in the process that the Commission uses.

20 Q You're aware that the Commission's process to
21 check for cross subsidizations is to make sure that every
22 service covers its TSLRIC costs, correct?

23 A That's exactly the point that I'm making. It
24 does not consider the costs associated with making the
25 company whole against competitive losses as, for example,

1 Dr. Banerjee has recommended by his approach.

2 Q But it does ensure that every service cover its
3 cost?

4 A No, sir, it does not. It would expressedly
5 exclude any such make whole. And, therefore, it would
6 exclude those costs and would then not assure cost
7 recovery.

8 Q So you think --

9 A In other words, it was precisely not doing what
10 you are suggesting it is doing.

11 Q So you think the Commission should change its
12 practice regarding performing imputation analysis to check
13 cross for subsidization services?

14 A Well, I think at a minimum the Commission
15 shouldn't allow the company to be made whole against
16 competitive losses, which is another way to address this
17 problem. But if the Commission were to make the company
18 whole for competitive losses by, for example, adopting the
19 price elasticity recommendation that the company is
20 advancing in this case, then absolutely it would be
21 required to change the imputation analysis to include those
22 make whole costs as part of the price floor. Absolutely.

23 Q When you were talking about what the Commission
24 should be doing here in forecasting revenue effects and
25 that sort of thing, you said that -- I think you said

1 something to the effect that if this were being done for
2 Wall Street, they would consider these other effects, the
3 demand shift effects.

4 Do you recall that?

5 A Yes.

6 Q Why would Wall Street want to know, in fact,
7 what's in Figure 3 in your testimony? Why would Wall
8 Street want to know the demand shift effects?

9 A Because Wall Street is interested in competitive
10 losses. Because that's one of the reasons, for example,
11 that all of the CLECs' stocks are going into the toilet is
12 because they're losing money hand over fist because Wall
13 Street is very concerned about that issue. And Wall Street
14 will respond to competitive losses by downgrading the value
15 of stock.

16 That's not this Commission's job. This
17 Commission's job is to consider specifically the -- in the
18 context of this case, the regulatory effects -- I'm sorry.
19 The revenue effect of a price change. That's a different
20 question than the folks at Wall Street are asking.

21 Now, the folks at Wall Street may be interested
22 to know whether or not Qwest is going to earn and how much
23 money Qwest is going to lose as a result of this price
24 reduction. The folks in Wall Street may be very concerned
25 both about stimulation effects as well as competitive

1 losses, but that's not the question before this
2 Commission.

3 Q Do you agree that the folks on Wall Street would
4 want to have an as accurate as possible forecast of the
5 revenue effects of this Commission's decision in this
6 case?

7 A As one of the inputs to an overall revenue
8 forecast, yes. But this Commission is not responsible to
9 provide Wall Street with an overall forecast of the
10 company's revenues. That's not its job and it's not
11 specifically the commitment that was made in the context of
12 the settlement before this Commission right now.

13 Q But Wall Street wants to have accurate forecasts
14 of revenues. And in doing so, you would look at the
15 analysis in Figure 3, correct?

16 A No, sir. They would look to this Commission with
17 respect to what this Commission did as far as Figure 1 is
18 concerned. And they would use other information to develop
19 a Figure 3 of their own.

20 Q Okay. Because they want to have an accurate
21 forecast of the revenue effects, correct?

22 A Wall Street needs to collect information from a
23 number of sources. Wall Street needs to make an assessment
24 of the growth of competition in this jurisdiction. They
25 need to make an assessment about how effective this company

1 is going to be in frustrating competitive entry. They need
2 to make an assessment of what this Commission is going to
3 do in this case. They need to make an assessment of
4 whether or not -- what competitors in this jurisdiction are
5 going to do. A whole bunch of stuff.

6 What this Commission does in this case is simply
7 one of the inputs to the kind of analysis that a securities
8 analyst would be considering.

9 And it's not this Commission's responsibility,
10 nor is it appropriate in the context of this proceeding,
11 for this Commission to attempt to do the kind of
12 forecasting that Dr. Banerjee is suggesting it do. That's
13 not its job and it's not appropriate.

14 Q Shouldn't this Commission try and forecast the
15 revenue effects of price changes as accurately as possible?

16 A They should do exactly that. They should try to
17 forecast the revenue effects of price changes and only
18 that. They should not attempt to forecast in the context
19 of this proceeding the revenue effects of the internet, of
20 cellular, of One Plus, of all kinds of other extrinsic
21 events that have nothing to do with price changes.

22 MR. REICHMAN: Nothing further.

23 ALJ CROWLEY: Thank you. Follow up?

24 MR. TRINCHERO: No.

25 ALJ CROWLEY: Thank you very much, Mr. Selwyn.

1 THE WITNESS: Thank you.

2 ALJ CROWLEY: You're excused as a witness. Mr.
3 Turner is up next?

4 MR. WEIRICH: Could we take a short break before
5 we start?

6 ALJ CROWLEY: All right. Let's make it short
7 though. We will convene at quarter of. No later.

8 MR. WEIRICH: Thank you.

9 (Recess taken)

10 ALJ CROWLEY: All right. Let's go back on the
11 record. Mr. Reichman has a clarification for the record.

12 MR. REICHMAN: There was some confusion earlier
13 today as to whether certain data in Exhibit AT&T 11 was
14 adjusted to account for certain Sprint United conversion to
15 being a primary toll carrier.

16 Qwest has investigated and determined that the
17 data from January, 1997 through July, 1997 in that exhibit
18 was adjusted to account for the Sprint United conversion to
19 a primary toll carrier.

20 And I talked to Staff about making that
21 clarification on the record, me versus the witness. And
22 Staff was okay with me doing that. I haven't talked to any
23 other party.

24 ALJ CROWLEY: Does any other party object to Mr.
25 Reichman making that clarification.

1 MR. TRINCHERO: Can we have a moment? Your
2 Honor, I hate to suggest this, but we do have some
3 questions about the clarification.

4 ALJ CROWLEY: All right.

5 MR. TRINCHERO: And I don't know. Perhaps what
6 we should do is discuss it off line and make sure that we
7 understand what it means to have adjusted it between
8 January and July.

9 MR. REICHMAN: Why don't I make -- I think I can
10 clarify that now. And if there's any questions, we'll put
11 Mr. Teitzel back, because I certainly don't want to be
12 testifying about it. But what I meant by adjusted --

13 MR. TRINCHERO: Would we put Teitzel back on?

14 MS. HOPFENBECK: Dr. Banerjee.

15 MR. REICHMAN: Dr. Banerjee did not confirm that
16 fact. Teitzel did.

17 MR. TRINCHERO: Teitzel confirmed the fact that
18 the data included some form of adjustment, which we're not
19 quite clear on, but then Dr. Banerjee was the one that used
20 the data to run the studies.

21 MR. REICHMAN: Right. Qwest provided the data to
22 Dr. Banerjee, so it would be appropriate for a Qwest
23 witness to say what was in or out of that data.

24 MR. TRINCHERO: In the data.

25 MR. REICHMAN: Correct. The data that's

1 reflected in that exhibit.

2 MR. TRINCHERO: I mean, what we heard earlier
3 today was that Dr. Banerjee didn't know, when he was
4 looking at the data he didn't know whether or not there had
5 been any adjustments to the data to reflect United PTC.
6 And now what we're hearing is that the data did have some
7 sort of adjustment to it. We might want to ask Dr.
8 Banerjee how that impacts his analysis.

9 MR. MANIFOLD: May I suggest that perhaps the
10 parties should discuss this off line.

11 MR. TRINCHERO: Yes.

12 MR. MANIFOLD: And then come back on the record
13 with it.

14 MR. REICHMAN: Dr. Banerjee is going to be
15 leaving shortly.

16 ALJ CROWLEY: Do you want to take a recess right
17 now? Let's resolve this.

18 (Recess taken)

19 ALJ CROWLEY: We're back on the record.

20 MR. REICHMAN: I would like to -- I'd like to
21 clarify my clarification to make sure it was very clear.
22 Referring to the second page of Exhibit AT&T 11, all of the
23 columns that reflect minutes of use or revenue for the time
24 period from January of '97 through July of 97, any of the
25 minutes of use of revenue attributable to Sprint United

1 customers was removed.

2 The effect of that is that when Sprint United
3 became a primary toll carrier in July of '97, the data
4 would be presented on the same basis, if you will.

5 MR. TRINCHERO: Yes. And I think with that
6 clarification, we will not need to either recall Dr.
7 Banerjee or Mr. Teitzel.

8 ALJ CROWLEY: Thank you.

9 MR. TRINCHERO: Or Mr. Reichman to the stand.

10 MR. REICHMAN: Thank you. I appreciate that.

11 ALJ CROWLEY: All right. Now I think we're ready
12 for Mr. Turner.

13 Would you call your witness, please.

14 MR. WEIRICH: Okay. Tom Turner.

15 ALJ CROWLEY: Okay. Stand, please, and raise
16 your right hand.

17 (Witness sworn by Administrative Law Judge)

18 ALJ CROWLEY: Thank you. Please be seated and
19 state and spell your name for the record.

20 THE WITNESS: My name is Thomas A. Turner. Last
21 name is spelled T-u-r-n-e-r.

22 ALJ CROWLEY: Thank you. Mr. Weirich?

23 MR. WEIRICH: Thank you. I believe that Mr.
24 Turner has sponsored Staff's Exhibits 8, 9, 10, 11, 12 as
25 direct exhibits and Rebuttal Exhibits Staff 20 and 21.

1 --ooOoo--

2 THOMAS A. TURNER,

3 Thereupon called as a witness on behalf of PUC Staff, first
4 duly sworn, was examined and did testify as follows:

5

6 DIRECT EXAMINATION

7 BY MR. WEIRICH:

8 Q Mr. Turner, do you have any corrections to any of
9 those exhibits?

10 A No, I do not.

11 MR. WEIRICH: I'm not sure where we are
12 procedurally, but to the extent these exhibits haven't been
13 offered, I'd like to have them offered.

14 ALJ CROWLEY: They have not been offered. There
15 were no objections registered to these exhibits, so they
16 are admitted.

17 MR. WEIRICH: Thank you.

18 ALJ CROWLEY: And Staff 8 through 12 and 20 and
19 21.

20 MR. WEIRICH: Thank you. And I tender Mr. Turner
21 for cross.

22 ALJ CROWLEY: Thank you. Qwest is the lead.

23 MR. REICHMAN: Thank you.

24 --ooOoo--

25 CROSS EXAMINATION

1 BY MR. REICHMAN:

2 Q Good afternoon, Mr. Turner.

3 A Good afternoon.

4 Q You recommend that the Commission apply an
5 elasticity factor of $-.3632$ in analyzing the revenue impact
6 of lowering Qwest's toll rates, correct?

7 A That's correct.

8 Q And the assumption underlying that recommendation
9 is that customers will react to Qwest's lower toll rates by
10 either making more toll calls or longer intraLATA toll
11 calls, correct?

12 A It reflected a recommendation that consumers
13 would respond to a Qwest price reduction with more toll
14 minutes. I did not separately analyze whether messages
15 would be stimulated or holding times would be stimulated,
16 only the overall minute demand would be stimulated.

17 Q So the effect is to adjust the test year minutes
18 of use volume upwards?

19 A Yes.

20 Q And, in effect, that offsets some of the revenue
21 reductions that would result from reducing rates by the
22 increase in revenue projected to result from increasing the
23 MOU volumes?

24 A Yes.

25 Q The level of that offset is approximately \$6.3

1 million?

2 A Yes. I believe you're referring to Staff 8, page
3 3. It's 6.258 million.

4 Q So whereas Qwest calculates its reductions in
5 toll would reduce revenue based on test year volumes by
6 approximately 32 million, Staff's testimony is that those
7 same reductions would only reduce revenues by approximately
8 25.7 million?

9 A I'm not -- I'm not getting the 25.7. Staff's
10 proposal would be a revenue reduction of 23.4 million.

11 Q Right. And I was trying to isolate the effect of
12 the stimulation recommendation. I note Staff recommends
13 other changes to the toll rates that would further affect
14 the revenue reduction, correct?

15 A Yes. The rate design differences as noted on
16 that page were 2.3 million.

17 Q Right.

18 A And the stimulation component was 6.3 million.
19 And that would give the total difference of 8.6 million
20 between the Qwest proposal and the Staff proposal.

21 Q Thank you. Now, the basis for Staff's
22 recommendation of using the elasticity factor of $-.3632$ is
23 that it's the same factor resulting from a study performed
24 by U.S. West in 1990 in connection with Oregon Docket UT
25 102, correct?

1 A Yes. Actually, the compliance filing in that
2 docket was UT 85 and 102. But, yes, it was a study
3 submitted at that time.

4 Q And what that was projecting, what that study
5 projected or calculated, was the average first year
6 elasticity; is that -- excuse me. Let me withdraw the
7 question.

8 The $-.3632$ figure is the average first year
9 elasticity projected in that study, correct?

10 A That is correct.

11 Q And what that means is that the elasticity is
12 what is expected one year after implementing a rate
13 change?

14 A I'm having trouble with that question. So let me
15 refer you to this is the Confidential Exhibit Staff 12,
16 Turner 28.

17 And in that exhibit what we find are a quarter by
18 quarter cumulative elasticity factors, of which the fourth
19 quarter after the change would be higher than the average
20 that I used there of $.3632$.

21 Q And the page you referenced at the bottom says,
22 "One year average elasticity equals $-.3632$ "?

23 A That's correct.

24 Q Thank you. Now, excuse me.

25 Is that $-.3632$ figure a firm or a market

1 elasticity?

2 A It -- and I did -- if it's all right, I'll have a
3 longer answer for that.

4 It represents a Qwest elasticity but during a
5 time when it was more or less the sole provider of toll
6 services within the LATA. So to that degree, I think it
7 represents a market elasticity simply because of Qwest's
8 dominant nature in that market in that period that the
9 elasticity study represented.

10 Q And the study period you're referring to is 1984
11 to 1989; is that correct?

12 A That is correct.

13 Q And would you agree that Qwest had nearly 100
14 percent of the intraLATA toll market in Oregon during that
15 time frame?

16 A I would agree it was pretty close. I think I
17 responded to one of your interrogatories, and I can't
18 recall exactly the details of the response. But I would
19 agree that Qwest was certainly the dominant provider.
20 There may have been some Dial Around minutes. For those of
21 you not familiar with Dial Around, Dial Around is a
22 situation where the customer dials a specific carrier code
23 in order to bypass Qwest's toll service. So there might
24 have been some Dial Around at that time, but not much.

25 Q Would you agree that Qwest had at least 95

1 percent of the intraLATA toll?

2 A I would agree with that, yes.

3 Q Perhaps higher? Perhaps higher than 95 percent?

4 A I frankly don't know.

5 Q Would you agree that Qwest has less than 50
6 percent of that market now?

7 A I don't know because I don't know the total size
8 of the intraLATA market today. We do get reports from
9 competitive providers. However, those reports are not
10 segmented by LATA. They're segmented by state and
11 interstate.

12 So I do understand the erosion that has taken
13 place in Qwest's toll market, but I don't know the percent
14 market that Qwest currently occupies today. There's been a
15 lot of things happening, as noted by Dr. Banerjee, in terms
16 of other providers becoming primary toll carriers. And in
17 terms of dial parity, that has introduced a whole new
18 market for the other competitive long distance companies.

19 So I don't have a percentage as far as market
20 share goes.

21 Q That's all right. Would you agree that there's
22 vigorous competition in that market, intraLATA toll market
23 in Oregon?

24 A Are you referring to today, in 2000?

25 Q Yes, today.

1 A Yes, I think so. I think the dial parity has
2 created a situation within the intraLATA market that
3 resembles the interLATA market in terms of consumers'
4 freedom to presubscribe to whatever carrier they so choose.

5 Q Qwest introduced One Plus dialing parity for
6 intraLATA toll in February of 1999; is that correct, in
7 Oregon?

8 A That's correct.

9 Q And that makes it much easier for IXCs to compete
10 for intraLATA toll carriers for Qwest, correct?

11 A Yes, it does. There might be some discussion as
12 to the level of impediments that Dial Around might
13 represent. But I would say that even looking at Dr.
14 Banerjee's -- I think he called it a polynomial of fourth
15 degree -- that, indeed, that was spurred by the Dial Around
16 parity conversion.

17 Q Would you expect other IXCs to reduce toll prices
18 if Qwest reduces its toll prices?

19 A Would you repeat that?

20 Q Sure. Would you expect other IXCs to reduce
21 their intraLATA toll prices if Qwest reduces its toll
22 prices in this case?

23 A I have no such expectations. The situation there
24 is that it is dependent upon what level of toll rates
25 competitors currently have and whether they would need to

1 reduce toll prices.

2 I think, obviously, if they felt themselves
3 losing recent ground that they gained against Qwest, that
4 they might want to consider it in light of your 40 percent
5 reduction. But I don't want to anticipate what competitors
6 may or may not do here. Depends on where they are today in
7 terms of their own toll rates and the revenues that they
8 derive.

9 Q Other than One Plus for wire line calls, would
10 you agree that there are other competitive factors that
11 influence Qwest's market share for intraLATA toll call?

12 MR. WEIRICH: Just for clarification, what time
13 period are we talking about?

14 MR. REICHMAN: Current time, now.

15 MR. WEIRICH: Thank you.

16 Q BY MR. REICHMAN: I can give you some examples if
17 you'd like.

18 A I would appreciate some examples, yes.

19 Q Sure. For example --

20 A It helps me to dream them up.

21 Q -- the availability of cellular phones with free
22 long distance, would you agree that might be a competitive
23 factor for versus Qwest's long distance service?

24 A Yes.

25 Q Are you familiar with the concept of internet

1 protocol telephony? It's been referred -- I think
2 Net2Phone was a company that was referred to. Are you
3 familiar with that concept?

4 A Not familiar with it to testify on it. But other
5 than that, I know that it exists. I do not know the
6 percent of Oregon consumers that may employ that.

7 Q You know it exists?

8 A Yes.

9 Q And is it possible that that form of
10 communication could attract toll callers from what might
11 otherwise be a Qwest toll call?

12 A I think it might be a concern as to whether that
13 service is a complimentary service or a substitution
14 service. In some cases the use of the internet actually
15 may stimulate telephone calls under normal land line
16 circumstances. In other cases it might be a substitution.
17 Simply because if you find a person is not on their
18 computer or they're waiting for some kind of voice
19 communication, you pick up your phone and you call them,
20 will you get on your computer so I can reach you.

21 So I am not sure exactly whether something is a
22 supplement or a substitute service when it comes to the
23 internet situation.

24 Q You referenced Dial Around. Would you agree that
25 Dial Around through the use of calling cards is also a

1 competitive factor to using Qwest's toll service?

2 A I suppose it depends on who the calling card is
3 with. There's nothing that prevents Qwest from having its
4 own calling card. And I believe it does, in fact. But a
5 calling card is an alternative way of using the toll
6 network, yes.

7 Q And other IXCs provide calling cards other than
8 Qwest; is that correct?

9 A That's correct.

10 Q And many of these factors that I just mentioned
11 were either not present in 1990 or not present to the
12 degree that they're present today, correct?

13 A I would agree that comparing the 1990 situation
14 with the year 2000 situation, there has been a dramatic
15 change in that regard. However, Staff's test year is
16 1997.

17 Q And I was just referring to 1990 because that's
18 when the study was done, correct?

19 A That's right.

20 Q Now, you agree that there are many factors beside
21 price that could affect toll demand, correct?

22 A I think didn't you just go through a list of the
23 internet --

24 Q I did.

25 A -- voice as well as wireless? So if you have

1 other factors you would like me to address, I can answer
2 yes or no.

3 Q Well, in fact, I'm referring to your testimony.
4 So, in fact, on page Exhibit Staff 8, Turner 23, you say on
5 lines 15 to 16, "Many factors besides price" --

6 Well, let me start at the beginning of the
7 sentence. "I agree with the general proposition that there
8 are many factors besides price that could affect toll
9 demand, including competitive pressures, market size,
10 general economic factors, local communities of interest as
11 reflected in calling patterns, EAS, community, the
12 holidays, and even inclement weather."

13 Did I read that correctly?

14 A Yes. Yes. That was good.

15 Q Thank you very much. Now, you state later on
16 lines 18 through 19 that you disagree that these factors
17 eliminate price elasticity, correct?

18 A That's correct.

19 Q Do you agree that these other competitive factors
20 could offset or reduce the effect of price elasticity?

21 A I don't have a good answer for that. And let me
22 try to explain a little bit. When one does a regression
23 analysis, you attempt to pick up as many variables that
24 might influence demand as possible. And when you look at
25 various economists and the type of variables they pick up,

1 it could be anything from general economic factors to
2 education to race to call concentration to competitive
3 pressures to just a local community of interest.

4 The concept, however, of doing regression
5 analysis is to isolate price as a factor in demand. And so
6 I'm not convinced that that factor necessarily changes
7 simply because you've added more forecasting variables to
8 your analysis of demand.

9 Q Now, you did not do a regression analysis in this
10 case, did you?

11 A No, I did not. But even Mr. Bailey's regression
12 analysis, he indicates that the purpose of that regression
13 analysis is to isolate price as a factor in demand.

14 Q And, indeed, that study did not account for any
15 of these other competitive factors, did it?

16 A It accounted for exactly what he put in his -- in
17 his study. I believe he put in there disposable income,
18 disposable personal income. And some -- and some line
19 factors as well as price factors.

20 Q I'd like to refer you to that study. And it's
21 Exhibit Confidential Staff 12 at page Turner 4. And this
22 is part of a confidential exhibit so I think we're starting
23 confidential testimony here.

24 ALJ CROWLEY: I believe we've resolved the issue
25 with the one non-signatory that we had.

1 MR. REICHMAN: Yes.

2 MR. TRINCHERO: Yes. I think the issue is going
3 to be resolved by having her sign the protective order.

4 MR. REICHMAN: That's fine. I'm also noting it
5 for the record.

6 ALJ CROWLEY: Just the transcript.

7 Q BY MR. REICHMAN: Now, at the top of page 4, Mr.
8 Bailey, the author of that study says, "Also if the future
9 environment changes substantially from the present, e.g.,
10 intrastate/intraLATA competition expands dramatically,
11 extrapolation of these results might be spurious."

12 Is that correct?

13 A That's what it says, yes.

14 Q And didn't he also state in the next paragraph,
15 "Continued attention should be given to the development of
16 a competitive activity variable. Inclusion of such a
17 variable would allow a quantification of the impact that
18 competition has on MTS demand"?

19 A Yes.

20 Q Now, with respect to the UT 102/UT 85 price
21 reduction --

22 ALJ CROWLEY: Excuse me. Are we off the
23 confidential area?

24 MR. REICHMAN: I apologize. Yes, we are.

25 ALJ CROWLEY: Thank you.

1 MR. REICHMAN: Thank you.

2 Q BY MR. REICHMAN: With respect to the UT 102/UT
3 85 toll price reduction, are you aware that the percentage
4 reduction in connection with that case or those cases was
5 less than two percent?

6 A I'm not aware of that. The document that I have
7 I think had about eight million in reductions.

8 Q Do you know what percent that would equate to?

9 A I don't, no.

10 Q All right.

11 MR. REICHMAN: I've passed around and handed you
12 an exhibit which I think should be marked as Qwest 233.

13 ALJ CROWLEY: Correct.

14 MR. REICHMAN: Thank you. For identification.

15 Q BY MR. REICHMAN: Mr. Turner, do you recognize
16 this document? Or do you need more time to look at it
17 before you can answer that?

18 A Well, it's ten years old. I do not recognize
19 it. But, obviously, it's addressed to me and I'll be happy
20 to answer questions on it.

21 Q Thank you. Let me ask you to turn to the fourth
22 page of that document. And that sets forth what -- well,
23 let me ask you, does that appear to set forth the annual
24 revenue effect of certain toll reductions in connection
25 with the UT 85 case?

1 A It does.

2 Q Thank you. Now, if we were to try to calculate
3 the percentage of reductions in that case, which numbers
4 from this page would we be using?

5 A Well, I think it depends upon whether or not you
6 include stimulation or not.

7 Q Let's say we did include stimulation.

8 A Well, I would take the 141 over 143 in that and
9 then 1 minus that difference.

10 Q Okay.

11 A 141 over 143, that would give you about 90
12 percent. And 1 minus 90 percent of whatever it is might be
13 that percentage. I've not done that, by the way.

14 Q Let me try to do that for you. So you're saying
15 divide 141 by 143?

16 A Yes.

17 Q I'll tell you that my calculator says .986. Does
18 that sound about right? Or do you want to do this?

19 A No, no, no. No, you go ahead.

20 Q Does that sound about right?

21 A I think the document speaks for itself.

22 Q I'm trying to get to a percentage is what I'm
23 trying to do. And I don't know that it does that.

24 A I guess the one caution I would have is that I
25 think it's valuable to do the rate reduction in terms of

1 with and without stimulation.

2 Q Okay.

3 A Because if not, you are simply getting a
4 composite answer after stimulation and you aren't really
5 getting the percent of rate reduction that goes with it.

6 Q Does this document allow us to -- are there
7 figures in this document that allow us to do that?

8 A Well, I don't see it here. But if your question
9 is what is the revenue reduction, then the calculation you
10 just did would handle that. If your question is what is a
11 rate reduction --

12 Q Okay.

13 A -- then I think you would have to -- you would --
14 one way to do that would be to take the without stimulation
15 and then divide those out. Either that or go to the second
16 page of this document and simply compute the percentages
17 there. And that would --

18 Q Right. But you would need some values to do that
19 accurately?

20 A Yes, you would. It's a lot more difficult.

21 Q Well, let's -- since the information we have
22 includes stimulation, we're looking at, what, a -2,652,000
23 approximate figure for revenue reduction here, including
24 the effective stimulation?

25 A How much did you say, 1.7 million?

1 Q I'm looking at the bottom, 2,652,000.

2 A Oh, yes.

3 Q If I were to divide that number into another
4 number, could I figure out the percent reduction?

5 A Yes. It would be -- it would be the percent
6 revenue reduction and not necessarily --

7 Q Right. I understand.

8 A -- the percent rate reduction.

9 Q Understood. Would you agree that that net
10 revenue reduction is going to be in the 1 to 2 percent
11 range based on the figures on this page?

12 Would you like to calculate it yourself?

13 A No. I can accept that.

14 Q Okay. Thank you. And in this case Qwest
15 proposes toll reductions in excess of 40 percent, correct?

16 A Yes.

17 Q Now, back to -- I guess this is confidential
18 again. Back to the Exhibit Staff 12, Turner, page 9, about
19 two-thirds of the way down that page the author of that
20 study says, quote, Of course these results may not be
21 applicable to estimates of demand response when future
22 price changes are well in excess of those experienced in
23 the past, closed quote.

24 Is that correct?

25 A That's what it says, correct.

1 MR. MANIFOLD: Your Honor, if I could just
2 interject. This document is marked as confidential, but
3 since it is sort of a pain to have everybody have large
4 parts of the transcript marked as confidential, I wonder if
5 the portion that you're using is a confidential portion of
6 it?

7 MR. REICHMAN: Yeah. I would be happy to have
8 everything that we've discussed with Mr. Turner from that
9 exhibit not be confidential, if that makes it easier for
10 everybody.

11 MR. MANIFOLD: Thank you.

12 ALJ CROWLEY: Thank you.

13 MR. REICHMAN: Sure.

14 Q BY MR. REICHMAN: Mr. Turner, do you agree with
15 Dr. Selwyn that demand response to a price decrease
16 decreases at lower price levels?

17 A I have -- I have no reason to disagree. I think
18 Dr. Selwyn has studied the market a lot better than I have,
19 so I have no reason to disagree with him. And I think Dr.
20 Banerjee also confirmed Dr. Selwyn on that issue.

21 Q So you would agree with that general proposition?

22 A I have no basis to disagree.

23 Q And would you agree that a product might even
24 exhibit a near inelastic demand at a relatively low price,
25 as Dr. Selwyn has testified?

1 A I'm not sure what a "relatively low price" is.
2 And the reason why I say that is because people respond to
3 their bills. And you might have several hundred minutes a
4 month, so even a low price, if you're processing a hundred
5 or a thousand minutes a month of toll, is very significant
6 to you. Even if it's, you know, 4 cents a minute at
7 several thousand minutes, I mean, that still could be a
8 substantial rate reduction that consumers could get a
9 handle on.

10 Q But you do generally agree that as prices go
11 lower, the demand response decreases, right? You have no
12 basis to disagree with that?

13 A I have no basis to disagree with that, that's
14 true.

15 Q Now, you're aware that Qwest's current average
16 revenue per minute for all toll calls is under 15 cents,
17 correct?

18 A By my calculation, yes. It's 14.39 cents.

19 Q Are you aware that at least one economist has
20 concluded that residential demand for intraLATA toll
21 becomes highly priced inelastic at an average price per
22 minute of 15 cents?

23 A Am I aware of that? No.

24 Q Mr. Turner, I've just handed you a document that
25 I'll ask to be marked as Exhibit Qwest 234 for

1 identification. Let me ask you to turn to what's marked --
2 I think it's the second to last page. It's marked in the
3 upper right-hand corner as page number 123.

4 A Page number 123?

5 Q Correct.

6 A Yes.

7 Q And there's some underlining towards the bottom
8 of that page. Do you see around in the middle of where it
9 says quote, We find residential household demand becomes
10 price inelastic at an average price per minute below 15
11 cents, closed quote?

12 A I'm not seeing that. Are you in the middle of
13 the page?

14 Q No. I'm towards the bottom where there's
15 underlining. Page 123.

16 A Oh, okay. Yes, I do see that. Yes.

17 MR. REICHMAN: Your Honor, I think first that I
18 overlooked offering Exhibit Qwest 233. And I would do that
19 at this time.

20 ALJ CROWLEY: Any objection?

21 MR. WEIRICH: No.

22 ALJ CROWLEY: Qwest 233 is admitted.

23 MR. MANIFOLD: Your Honor, excuse me. I do have
24 a question about this. I can't find any date on it.

25 MR. WEIRICH: That's on the prior exhibit.

1 MR. REICHMAN: You're talking about 234 now?

2 Okay. I hadn't offered that yet.

3 MR. MANIFOLD: Sorry if I missed that.

4 MR. REICHMAN: But let me -- I'm going to offer
5 Exhibit Qwest 234. But I would like to answer Mr.
6 Manifold's question, if I can. I had discussed earlier
7 with respect to AT&T 14 that there were two studies
8 referenced in there. This is the other study. I know that
9 it was published in that book dated 1999, if that helps
10 you.

11 MR. WEIRICH: Well, I'm going to object to the
12 exhibit, regardless of what the year is. The witness has
13 testified he's not familiar with it. He's read the one
14 sentence from it that Mr. Reichman wanted him to read. But
15 I don't think that that lays a foundation for introducing
16 this exhibit through Mr. Turner.

17 MR. REICHMAN: Your Honor, this is an economist's
18 testimony with respect to price stimulation expected at
19 certain price levels. Mr. Turner has testified on price
20 stimulation, so we think it's appropriate to introduce this
21 as cross examination of Mr. Turner.

22 I will also point out that it was a part of the
23 complete data response in AT&T 14.

24 ALJ CROWLEY: I'm going to let it in. Were you
25 offering it at this point?

1 MR. REICHMAN: I'm offering it. Thank you.

2 ALJ CROWLEY: All right. Any other objections
3 besides Mr. Weirich's? All right. It's admitted.

4 Q BY MR. REICHMAN: Mr. Turner, you testified that
5 the Commission utilized an elasticity factor of -2.77 in
6 Verizon's, then GTE's, rate case in 1998; is that correct?

7 A That's correct.

8 Q And that was based upon a settlement with
9 Verizon, correct?

10 A Yes, it was.

11 Q And I'm using Verizon and GTE interchangeably. I
12 apologize if that's confusing. But at that time GTE
13 advocated a factor of -.19 and Staff advocated a factor of
14 -.364?

15 A That's correct.

16 Q And the -.277 is a simple average of those two
17 numbers?

18 A That's correct.

19 Q And would you agree that the percentage reduction
20 in toll revenue from that case was approximately 15
21 percent?

22 A I don't recall.

23 Q Would you accept that subject to check?

24 MR. WEIRICH: Maybe we can -- a point of
25 clarification. I'm not exactly certain what "subject to

1 check" means. Will Mr. Turner be given an opportunity to
2 come back and look at some documents that Mr. Reichman is
3 going to give him? Or maybe we can clarify what that
4 phrase means.

5 MR. REICHMAN: I would certainly be open to Mr.
6 Turner checking documents from that rate case filed. To be
7 honest, I don't know that we have -- that I have the
8 documents that could allow him to do that. Many of those
9 may have been confidential in that case.

10 MR. MANIFOLD: Your Honor, may I make a
11 suggestion? And that is if the witness is going to accept
12 it subject to check, if it's something that he can, in
13 fact, verify and then provide a time period within which he
14 should report back, by letter presumably, if he does not
15 accept it and explain it.

16 ALJ CROWLEY: Right. And that way we don't have
17 to recall you.

18 MR. MANIFOLD: Assuming he can't do it within the
19 next two days.

20 THE WITNESS: Well --

21 MR. MANIFOLD: If he's going to accept it subject
22 to check is the way to handle it.

23 THE WITNESS: It really is not my intent to go
24 back and research another docket. We have a lot of
25 dockets, and I hope you don't ask the same inquiry on every

1 docket.

2 MR. REICHMAN: I don't intend to ask that inquiry
3 anymore.

4 Q BY MR. REICHMAN: Do you have any -- as you sit
5 here, do you recall what the percent toll reduction was in
6 the Verizon or GTE rate case?

7 A Do I recall what it was?

8 Q Yes.

9 A The percent toll reduction?

10 Q Yes.

11 A No, I don't.

12 MR. REICHMAN: Well, it sounds like the witness
13 is not willing to check. So perhaps the Commission's order
14 in that case makes that clear, in which case we would ask
15 that you take official notice of the Commission's order in
16 that case.

17 ALJ CROWLEY: Do you have a docket number for
18 me?

19 MR. REICHMAN: It is Docket UT 141. And I could
20 provide the order number.

21 ALJ CROWLEY: Thank you.

22 MR. WEIRICH: I was conferring for a second. So
23 we're leaving it and we're going to have the order be
24 officially noticed, and that's how we're leaving this
25 issue? I lost track. I'm sorry.

1 ALJ CROWLEY: Right.

2 MR. REICHMAN: I think Mr. Turner said he was not
3 willing to do research, so I'm not going to ask him.

4 THE WITNESS: I thought you asked me if I knew
5 what the percent reduction was.

6 MR. REICHMAN: Right.

7 THE WITNESS: And I did not. There is a
8 stipulation document with that particular order, by the
9 way. So it's -- we can put that in the record if you'd
10 like.

11 MR. REICHMAN: And I've asked.

12 ALJ CROWLEY: That's what we're discussing right
13 now, taking official notice of the order in that docket.

14 MR. REICHMAN: And that's fine. And you say
15 there's a stimulation or a stipulation?

16 THE WITNESS: There was a -- there was an order,
17 plus a stipulation document.

18 Q BY MR. REICHMAN: And did you believe that the
19 stipulation would set forth the information about the toll
20 reduction in detail?

21 A You would probably find it very similar to the
22 document you handed me in regard to UT 102 and 85. You
23 will find revenue figures possibly with stimulation in it.

24 Q Okay.

25 A So the rate reduction and the revenue reduction

1 are slightly different.

2 Q Okay. We'll go with whatever is in there.

3 So the order in that case assumed a stimulation
4 of $-.277$ for toll, correct?

5 A Yes.

6 Q And Staff has not tracked Verizon's toll revenues
7 since that order went into effect to see if that demand
8 response, in fact, occurred, correct?

9 A We have not, that's true.

10 Q And you're aware that Verizon has stated in
11 discovery responses in this case that its toll revenue has
12 actually dropped by two-thirds since implementing that rate
13 change, correct?

14 A It may have. I don't believe that its drop by
15 two-thirds was due to the rate case however.

16 Q And I'm not saying it was due to the rate case.
17 My question was that Verizon has stated that its toll
18 revenue has dropped by two-thirds since the rate case,
19 since implementing the rate changes in that case.

20 And I can refer you to Exhibit Qwest 223.

21 A I don't have that.

22 Q I can hand it to you. I can refer you to --

23 MR. REICHMAN: May I approach the witness, Your
24 Honor?

25 ALJ CROWLEY: Yes.

1 Q BY MR. REICHMAN: Mr. Turner, I've handed you
2 Exhibit Qwest 223, Teitzel 3. And I'll represent that this
3 is Verizon's response to data request in this case. This
4 has already been admitted.

5 And didn't Verizon say here that since that time,
6 referring to the rate changes in Docket UT 141, Verizon's
7 toll revenues have declined by approximately two-thirds as
8 a direct result of increased competition in the market?

9 A That is also -- well, I take it that they have
10 responded correctly. I would only point out that Verizon
11 was one of the first companies to go through a dial parity
12 conversion.

13 Q And when did they do that?

14 A They went through a dial parity conversion in
15 August of 1997.

16 Q And the rates from UT 141 went into effect
17 October of 1998, correct?

18 A That's -- that's true. Although the test year
19 was such that we had to perform in to the -- to the base
20 year the dial parity conversion. And we also had to
21 perform in a different base of revenues in order to
22 determine the revenue change amount.

23 You know, again, I would direct you to the
24 stipulation in that case which outlines the number of
25 performas that Staff did to the base year and the fact that

1 not only did we perform it in the dial parity in terms of
2 their revenue requirement, but we also did perform in a
3 different base revenue upon -- a base revenue post dial
4 parity upon which we applied a stimulation.

5 Now, if it turned out that they continued to lose
6 revenue after dial parity, it was simply because of the
7 fact that with the dial parity conversion in August of '97,
8 that is simply a starting line in the process of consumers
9 exercising their presubscribed choice. And they had a
10 hundred and twenty days of pre -- of free presubscription
11 so that they would be able to choose other carriers.

12 Interestingly enough, Qwest actually asked for
13 dial parity, unlike U.S. West. And one of the reasons for
14 that is they had a subsidiary that would benefit from dial
15 parity.

16 ALJ CROWLEY: Excuse me. You just said Qwest
17 asked for dial parity?

18 THE WITNESS: Verizon asked for dial parity

19 ALJ CROWLEY: Thank you.

20 THE WITNESS: They were the instrumental company
21 in that 141 docket. I mean -- excuse me. The dial parity
22 docket. I don't recall the docket number.

23 Q BY MR. REICHMAN: So, Mr. Turner, just to make
24 sure I understand all this, GTE implemented dial parity in
25 August of 1997, correct?

1 A Yes.

2 Q And customers had 120 days in which they could
3 switch their One Plus carrier with no charge?

4 A That's right. And beyond that, there might have
5 been other incentives by interexchange carriers to induce
6 customers to change.

7 Q They might have covered whatever PIC charge GTE
8 would have charged?

9 A That's correct.

10 Q And so would you expect that within the year
11 following GTE's conversion to dialing parity, customers --
12 many customers would have elected to change carriers?

13 A I don't have -- I did not track that so I don't
14 know how many customers in Verizon's territory had elected
15 to change carriers.

16 Q And just to be clear, the rate case order in UT
17 141 went into effect, the rates resulting from that order
18 went into effect in October of 1998, about 14 months after
19 GTE implemented dialing parity, correct?

20 A That's right. I'd have to go back and look at
21 the stipulation. My belief is that the test year was prior
22 to the dial parity amount, was prior to dialing parity.

23 Q I'm just asking you when the rates resulting from
24 that case went into effect.

25 A Afterwards, yes.

1 Q The order would probably reflect that, wouldn't
2 it?

3 A Yes.

4 Q Now, you have not done any price elasticity
5 studies in this case yourself, have you?

6 A No, I have not.

7 Q And Staff has not engaged any expert or anybody
8 to do such a study in this case, correct?

9 A No, we have not.

10 MR. REICHMAN: Thank you. I have no further
11 questions for Mr. Turner at this time.

12 ALJ CROWLEY: Thank you. I don't know if we
13 should do WorldCom or AT&T as lead on Mr. Turner's
14 examination.

15 MR. TRINCHERO: Can we take a short break first?

16 ALJ CROWLEY: Sure. Let's be back here no later
17 than quarter of.

18 (Recess taken)

19 ALJ CROWLEY: Mr. Trincherro, Ms. Hopfenbeck?

20 MS. HOPFENBECK: I have no questions of this
21 witness.

22 MR. TRINCHERO: Just a few.

23 --ooOoo--

24 CROSS EXAMINATION

25 BY MR. TRINCHERO:

1 Q Good afternoon, Mr. Turner.

2 A Good afternoon.

3 Q I'd like to ask you about a document that's been
4 identified as Qwest 234, the article by Armando Levy.
5 Levy. I'm not sure how that's pronounced.

6 A I have that.

7 Q You were asked about the conclusion in this
8 article in which Mr. Levy indicated that the services price
9 is inelastic.

10 Now, that doesn't mean that the elasticity is 0,
11 does it?

12 A I think if something were purely inelastic, that
13 would be 0. However, to say that something is relatively
14 inelastic, even an elasticity of -.3 or -.4 is considered
15 relatively inelastic.

16 Q Mr. Turner, are you familiar with the FCC's CALLS
17 order in the CALLS plan?

18 A Yes, I am.

19 Q And, in fact, isn't it true that in that plan the
20 average rate per minute -- or I'm sorry. The average
21 revenue per minute for interstate international calls is
22 about 13 1/2 cents?

23 A I don't have the document you're referring to.
24 But as -- and I have to look at it before to verify that.

25 Q Would you agree with me that it's less than 15

1 cents?

2 A Yes, I would. Now, I have the entire CALLS
3 analysis at my other desk. So I can go get that CALLS
4 analysis in its entirety.

5 Q We also have it here today.

6 MR. TRINCHERO: Do you mind if I approach the
7 witness?

8 ALJ CROWLEY: Go ahead.

9 Q BY MR. TRINCHERO: Is that what that indicates
10 there?

11 A Yes. It indicates that for purposes of
12 evaluating the CALLS analysis beginning in the base period,
13 that the average rate per interstate and international
14 calls was 13.5 cents.

15 Q Is it also true that the elasticity of demand
16 that was assumed for that same set of services is a -0.8?

17 A Yes, it is.

18 Q Thank you.

19 MR. TRINCHERO: I have nothing further of this
20 witness. Thank you.

21 ALJ CROWLEY: Thank you. Any redirect by Staff?

22 MR. MANIFOLD: Your Honor?

23 ALJ CROWLEY: I'm sorry.

24 MR. MANIFOLD: I do have just a couple of
25 questions.

1 ALJ CROWLEY: Go ahead.

2 MR. MANIFOLD: Brought up by other cross.

3 --ooOoo--

4 CROSS EXAMINATION

5 BY MR. MANIFOLD:

6 Q On this same point regarding price elasticity, do
7 you recall when long distance companies were first
8 advertising a dime a minute phone calls, long distance
9 interstate?

10 I'm not asking for the date. Do you remember
11 that that event occurred?

12 A I don't have a date. And my guess --

13 Q I'm not asking for a date. I'm just asking if
14 you recall --

15 A Yes.

16 Q -- that there was a point in time?

17 A Yes.

18 Q And do you recall that subsequently there was
19 offers of interstate calls of 7 cents a minute and then
20 subsequently a nickel a minute, at least on certain days of
21 the week?

22 A Yeah. I can recall, I think it was Sprint
23 advertising a five cent Sunday.

24 Q Would those advertisements by competitors in the
25 marketplace suggest to you that those competitors believed

1 that there is price elasticity at those levels of prices?

2 A Yes. I think competitors thrive on elasticity.

3 That's why they make the promotions. And the same thing is
4 true for Qwest. They have customer retention programs and
5 also programs that entice customers back into the Qwest
6 fold for toll services.

7 And if it wasn't for elasticity, why would one
8 want to do any type of promotion whatsoever? So, yes, I
9 think the interexchange carriers thrive on elasticity.

10 Q Okay. A couple of questions on a different
11 item. Counsel for Qwest asked you about a number of
12 factors in the telecommunications market. And one of them,
13 as I heard, was free long distance on cell phones.

14 Do you recall that?

15 A Yes.

16 Q Did you take that to mean flat rate long distance
17 phone calls on cell phones? Because if you're aware of any
18 free long distance on cell phones, I would like to know
19 about it.

20 A I'm sure everyone would. I took that to mean
21 that, for instance, that for 30 or \$40 a month you could
22 have up to a certain margin of minutes. You know, 300
23 minutes both toll and local at a particular flat amount.

24 Q Fine. Thank you.

25 ALJ CROWLEY: Mr. Weirich?

1 MR. WEIRICH: Just one area.

2 --ooOoo--

3 REDIRECT EXAMINATION

4 BY MR. WEIRICH:

5 Q Mr. Turner, I think you testified you're not
6 familiar with Qwest 234, are you? Have you seen this study
7 before, Qwest Exhibit 234?

8 Do you still have it in front of you?

9 A I'm not familiar with it, no.

10 Q Do you still have it in front of you?

11 A Yes, I do.

12 Q I think Mr. Trincherro was getting a point I just
13 wanted to make clear. Taken into account you haven't read
14 this study before or maybe not even yet, there was a
15 sentence Mr. Reichman had you find on the last -- on page
16 123 of the study.

17 A Uh-huh.

18 Q "We find residential household demands becomes
19 price inelastic at an average price per minute below 15
20 cents."

21 I think you were answering Mr. Trincherro by
22 saying "relatively" price inelastic. But the actual
23 sentence says "becomes price inelastic". And then you also
24 talked with Mr. Trincherro about what it means to be "purely
25 inelastic".

1 Do you know what the author meant here when he
2 says "becomes price inelastic", or do you have an opinion
3 about that?

4 A No. Not without -- not without reading the
5 article. I scanned just the beginning of it. And there's
6 a whole host of elasticities discussed beginning at page
7 116 which fall in the range in which Staff actually used.

8 Without having read the article or done the
9 statistics, I can believe that as price approaches 0,
10 demand becomes somewhat inelastic simply because people
11 look at toll call as an opportunity cost. It wastes their
12 time to be on the toll, on the line, 24 hours a day. So
13 there is some point where you get a saturation market at
14 very low prices.

15 Q Right. But purely inelastic would be the 0
16 percent?

17 A Purely inelastic would be a situation in which
18 consumers do not respond in terms of demand, either to
19 price increases or decreases.

20 Q It "becomes price inelastic" is not the same
21 thing as "purely inelastic". It's approaching that pure
22 state of 0 percent; is that a fair interpretation? Or do
23 you know, do you have an opinion?

24 A I don't know. But I think the sentence says
25 "becomes". It doesn't establish that it approaches

1 absolute 0.

2 MR. WEIRICH: Okay. That's all we have. Thank
3 you.

4 ALJ CROWLEY: All right. Any follow up to that?

5 MR. REICHMAN: Two, if I may.

6 ALJ CROWLEY: Mr. Reichman?

7 MR. REICHMAN: Thank you.

8 --ooOoo--

9 RE CROSS EXAMINATION

10 BY MR. REICHMAN:

11 Q Mr. Turner, Mr. Trincherro was showing you some --

12 MR. WEIRICH: I'm going -- I'm not quite sure of
13 the rules here, but is Mr. Reichman limited to my redirect
14 or can he range off into other directions?

15 ALJ CROWLEY: Because this is procedurally sort
16 of complex, I've allowed people to question off other
17 people's questioning. The reason I do that is because it
18 helps me to have the most complete record possible.

19 MR. WEIRICH: That's fine. Thank you.

20 MR. REICHMAN: Thank you.

21 Q BY MR. REICHMAN: Mr. Turner, Mr. Trincherro was
22 asking you some questions about the FCC CALLS plan.

23 A Yes.

24 Q Do you recall that? And the information that he
25 was referring to related to interLATA and international

1 calls, correct?

2 A That is correct.

3 Q And Exhibit Qwest 234, the title of that is -- do
4 you have that in front of you? It's "Semi-parametrics
5 Estimates of IntraLATA Demand Elasticity"?

6 A That is correct.

7 Q Mr. Manifold was asking you some questions
8 about advertisements by -- I don't know if he named
9 carriers -- but IXCs with 5 cent per minute rates.

10 Do you recall that?

11 A Yes.

12 Q Would you agree that the general purpose of the
13 advertisements by these IXC carriers is to win customers
14 for their product from other carriers?

15 A I think it has two-fold purposes. One is to
16 attract other customers from other carriers. And the
17 second one would be to keep their own customers informed of
18 opportunities for reasonably inexpensive toll calling.

19 Q And to keep their own customers with them as
20 opposed to having their own customers switched to other
21 carriers?

22 A That's right.

23 Q Thank you.

24 MR. REICHMAN: Nothing further.

25 ALJ CROWLEY: Any further recross? Thank you,

1 Mr. Turner. You're excused as a witness.

2 And Ms. Starr is up next. Would you stand,
3 please, and raise your right hand.

4 (Witness sworn by the Administrative Law Judge)

5 ALJ CROWLEY: Please state and spell your name
6 for the record.

7 THE WITNESS: My name is Arlene M. Starr;
8 S-t-a-r-r.

9 ALJ CROWLEY: Thank you. Mr. Trincherro?

10 MR. TRINCHERO: Thank you, Your Honor.

11 --ooOoo--

12 ARLENE M. STARR,

13 Thereupon called as a witness on behalf of AT&T, first duly
14 sworn, was examined and did testify as follows:

15

16 DIRECT EXAMINATION

17 BY MR. TRINCHERO:

18 Q Good afternoon, Ms. Starr.

19 A Good afternoon.

20 Q Do you have in front of you what has been
21 prefiled in this case as AT&T 1 through AT&T 8?

22 A Yes, I do.

23 Q And is that your direct testimony and exhibits?

24 A Yes, it is.

25 Q And do you have any corrections to your testimony

1 or exhibits?

2 A I have one correction to my testimony at
3 page 28. And it is at line 3, which starts, "May be
4 imputing the 6.6 cent switched access price". And that is
5 just a typographical error and it should be 2.6 cents and
6 not 6.6.

7 Q And, Ms. Starr, with the correction to the
8 typographical error, no other changes to your analysis are
9 implicated; is that correct?

10 A That's true.

11 Q If you were asked these same questions today,
12 would your answers be the same?

13 A Yes, they would.

14 Q And would they be true and accurate to the best
15 of your knowledge?

16 A Yes.

17 MR. TRINCHERO: Thank you. Your Honor, I'd like
18 to introduce into the record AT&T 1 through 8.

19 ALJ CROWLEY: All right. No party registered
20 objection to that, so AT&T 1 through 8 will be admitted.

21 MR. TRINCHERO: Thank you. Ms. Starr is tendered
22 for cross.

23 ALJ CROWLEY: And Qwest?

24 MR. REICHMAN: Thank you.

25

--ooOoo--

1 CROSS EXAMINATION

2 BY MR. REICHMAN:

3 Q Good afternoon, Ms. Starr.

4 A Good afternoon.

5 Q You testified that Qwest's switched access rates
6 should be set equivalent to the UM 844 building block
7 rates, correct?8 A That's correct. The price floors established by
9 UM 844. I guess I should clarify that.

10 Q The price floors. So the building block prices?

11 A Yes.

12 Q Okay. And on -- now on page 23 of your testimony
13 you quote the pricing standard from Section 252 D1 of the
14 Telecommunications Act, correct?

15 A I'm sorry. What page did you say?

16 Q Page 23, starting at line 5.

17 A Yes.

18 Q Now, Qwest is not required to unbundle switched
19 access service under Section 251, correct?20 A Section 251 is established to set -- establish
21 unbundled network elements and set rates accordingly.
22 Switched access is not an unbundled network element as
23 defined there by the FCC but has the functional equivalent
24 elements.

25 And it's before the FCC's determination now

1 whether they should be set one and the same and whether you
2 should be able to buy unbundled network elements to provide
3 access service alone. So that's being decided currently.

4 Q Right. But as the law stands today, Section 252
5 does not establish the pricing standard for the Commission
6 to apply in setting switched access rates in this
7 proceeding, correct?

8 MR. TRINCHERO: Your Honor, I'm just going to
9 object because as phrased, the question asked really for a
10 legal opinion.

11 MR. REICHMAN: And she cited that section of the
12 act in her testimony and she later says that our prices do
13 not comply with the requirements of the act. So I'm trying
14 to clarify that Section 252 does not set the standard in
15 this case.

16 ALJ CROWLEY: I'm going to allow the question.

17 THE WITNESS: I think maybe if I explain the
18 purpose for my statement, that might help.

19 Q BY MR. REICHMAN: Well, I would appreciate if you
20 would answer my question first.

21 A Can you repeat it then?

22 Q Sure. My question is, Section 252 does not
23 establish the pricing standards for the Commission to apply
24 in setting switched access rates in this proceeding,
25 correct?

1 A That's -- that's correct. The purpose of this
2 proceeding is to set Qwest intrastate rates for retail and
3 wholesale services according to the rules of the
4 Commission.

5 Since I was -- am using the rates previously
6 established by UM 844, and my prior statements in that
7 particular paragraph talk about whether the rates
8 established are fully compensatory. In other words, is
9 Qwest recovering all of their costs associated with those
10 elements and a reasonable profit, which leads into my next
11 statement about 252 in trying to show that the UM 844 rates
12 are fully compensatory and, thus, provide Qwest with cost
13 recovery plus reasonable profit and should be established
14 as the rates for switched access.

15 Q You're not asserting that this Commission should
16 set all rates in this proceeding at UM 844 rates, are you?

17 A Well, I think as I state in my testimony, the
18 kind of guidelines or the limits that the Commission has to
19 live with in this proceeding is a set revenue requirement.

20 So based on that kind of over -- you know, that
21 goal and there is a set revenue requirement in mind, that
22 it may not be possible to set all current rates at UM 844.

23 I think that's certainly -- as the Commission has
24 previously established, cost and prices for most of the
25 elements that we're discussing here from UM 844, I mean,

1 that should certainly be considered as a guideline in
2 establishing rates.

3 But it may -- I think I agree, it may not be
4 possible to set all of the rates at UM 844 in this
5 proceeding.

6 Q Right. And there's nothing in the Federal Act
7 that requires that the Commission apply the UM 844 rates to
8 switched access in this proceeding, correct?

9 A That's true.

10 Q Now, you alluded to what the FCC is currently
11 considering. Under the UNE, which for the reporter is
12 U-N-E, the UNE remand order by the FCC, are you familiar
13 with that order?

14 A Yes.

15 Q If interexchange carriers provide a significant
16 amount of local exchange service in addition to exchange
17 access service to a particular customer, then the IXC may
18 use certain UNES to provide service to that customer,
19 correct?

20 A That's my general understanding of the current
21 order in the UNE remand order, yes.

22 Q And if an IXC were to avail itself of that rule,
23 it would avoid switched access charges for that customer,
24 correct?

25 A In that particular situation, yes. If a CLEC in

1 that example I guess were providing local service via UNEs,
2 then they would be able to also provide switching in
3 transport for access services using unbundled network
4 elements at the UNE rates.

5 I might say as an IXC provides access service,
6 it's those same elements they're accessing. They're just
7 paying a different rate.

8 Q And you refer to the price floor. And I assume
9 you're making a reference to Oregon law that establishes a
10 price floor for certain non-basic services?

11 A Yes.

12 Q And the UM 844 rates set the price floor for
13 switched access rates under Oregon law, correct?

14 A Yes.

15 Q And the effect of a price floor is that Qwest
16 cannot charge below that price, correct?

17 A Generally there's a floor and a ceiling
18 established. And Qwest has the flexibility within that
19 range to adjust rates.

20 Q Right. So under Oregon law the price floor sets
21 a bottom limit, if you will, for the price?

22 A A minimum.

23 Q A minimum.

24 A Which generally is -- is applied -- or I guess
25 maybe more relevant in toll services, things like that,

1 making sure that Qwest does not price below their price
2 floor.

3 Q But it specifically also applies to a switched
4 access service, correct, intrastate switched access?

5 A Yeah. I think the way the rule reads is that the
6 tariffed rates are priced that Qwest charges for essential
7 functions must be included in the price floor and then the
8 TSLRIC for non-essential functions.

9 Q Correct.

10 A Which then becomes the price floor.

11 Q Correct. And Qwest is permitted under that
12 statute to charge prices higher than the price floor as
13 long as it doesn't exceed a cap, correct?

14 MR. TRINCHERO: Your Honor, I guess I'm not going
15 to interpose an objection but merely a comment. I would
16 like to remind -- well, for the record, this witness is not
17 a lawyer. She's being asked quite a few questions about
18 the statutes in place in Oregon and not in place in Oregon
19 and what they mean. And I would simply like to make clear
20 that all of her answers are her lay opinion as to what
21 those mean.

22 ALJ CROWLEY: That's noted.

23 MR. TRINCHERO: Thank you.

24 MR. REICHMAN: And I'll just note for the record
25 that on page 25 of her testimony she goes into this very

1 issue about what Oregon law requires.

2 ALJ CROWLEY: Correct. I see these issues in her
3 testimony.

4 Q BY MR. REICHMAN: Ms. Starr, do you agree that a
5 price squeeze only exists in a situation where a provider
6 of an essential service eliminates its competitor's
7 margin?

8 A I understand that's Qwest's interpretation. I
9 remember that reading. And I'm not sure -- I think it was
10 Mr. McIntyre's testimony. And I'm not sure from an
11 economist's standpoint if that's an official definition.

12 The use of it in my testimony and the purpose of
13 my price squeeze examples in my testimony is not so much to
14 show that a margin is eliminated, which is certainly one of
15 the examples that I show, but also that there's a reduction
16 relative to Qwest to IXCs in the margin in toll services
17 because of the difference between the cost and the price of
18 access.

19 Q I understand that. But I'm asking if you agree
20 with this definition of a price squeeze. Would you like me
21 to read it again?

22 A Please.

23 Q Do you agree that a price squeeze exists only in
24 a situation where a provider of an essential service
25 eliminates its competitor's margin?

1 A And I think, as I stated before -- I mean, I
2 guess I'm not -- I don't know the answer to that and from a
3 purely economic standpoint, if that's an official
4 definition. My opinion is no, that there are other
5 situations where competitors can be price squeezed and
6 their margins reduced when a -- when one of their essential
7 inputs is being provided by one of their competitors at a
8 rate that's different than the cost they incur.

9 Q A rate that's different from the cost?

10 A Yes.

11 Q That would be your definition of a price
12 squeeze?

13 A That's the example that I'm using in my
14 testimony, yes.

15 Q Now, you don't have an economics background, do
16 you?

17 A No, I do not.

18 Q Do you agree that a price squeeze requires that
19 the providers also compete in a downstream market and that
20 the provider of the wholesale service reduces its retail
21 service prices below costs to drive competitors from the
22 market?

23 A I'm sorry. Can you repeat that?

24 Q Sure.

25 A That was a long question.

1 Q Do you agree that a price squeeze requires that
2 the providers compete in a downstream market and that the
3 provider of the wholesale service reduces its retail
4 service prices below costs to drive its competitors from
5 the market?

6 A I'm thinking of it in two phases. I mean, the
7 downstream market, I think I understand what you're
8 referring to there. And as far as the wholesaler setting
9 their retail rates below cost, I don't think that's
10 necessarily required in order for a price squeeze because,
11 as we were discussing earlier, there are the imputation
12 rules in place here which, in theory anyway, prevent that
13 from happening.

14 And because Qwest needs to include the rate of
15 switched access into calculating the price floors for their
16 toll services, I don't -- and maybe the problem is with the
17 words "price squeeze". And maybe what I would call it is a
18 competitive advantage from a pricing perspective and a cost
19 perspective. Maybe that's a better way to phrase it and we
20 won't get into the semantics of price squeeze.

21 Q Well, you use the words "price squeeze" in your
22 testimony, don't you?

23 A Yes, I did.

24 Q Do you want to change that to "competitive
25 advantage"?

1 A I don't think that's necessary. I think I've
2 explained the context in which I've used "price squeeze"
3 and I would -- and I'm not absolutely sure, but I believe
4 I've also called it a "competitive advantage" over --
5 because of the difference between the price and the cost of
6 access. And that's really -- I'm referring to that in the
7 kind of same context.

8 Q So what you're really talking about here is some
9 sort of a competitive advantage as opposed to perhaps a
10 price squeeze in a technical sense?

11 A And I guess I need to be a little clearer. Not
12 just competitive advantage but strictly because of the
13 difference between the price and the cost of access.

14 Q Now, isn't it true that imputing the price of
15 essential services in Qwest's toll prices effectively
16 precludes Qwest from pricing below cost?

17 A It does require Qwest to include the current
18 tariffed rate of access into its price floor. I don't
19 think -- so that does prevent it currently from pricing
20 below cost. I don't think that eliminates this
21 competitive -- this pricing competitive advantage we have.

22 In addition -- and I'd have to check my notes
23 here I think. From my reading and I guess a non-legal
24 opinion, from the imputation requirement is that is -- the
25 one section of that is going to be phased out, that Qwest

1 include the rate for switched access as an essential
2 function into the price floor.

3 And I think it said four years after September
4 1st, '99. So we're about two years into that. So it
5 sounds like that has the potential anyway if that remains
6 to go away.

7 Q And you're referring to the phase out in ORS
8 759.410?

9 A In Subsection 5 I guess.

10 Q Subsection 5?

11 A Right.

12 Q And Subsection 5 specifically only applies to new
13 services, correct?

14 A Yes. I think my concern with that is it's a
15 little unclear what becomes a new service at that time.

16 Q Well, it talks about services introduced after
17 the electing price cap regulation, doesn't it?

18 A I'm not sure about that. I guess I'd have to go
19 back and read that to be sure.

20 Q And the statute says what the statute says.
21 Would you agree that switched access is an existing service
22 today?

23 A Switched access, yes.

24 Q Would you agree that switched access has been an
25 existing service for a good many years?

1 A Yes.

2 Q Are you aware of any circumstance in the
3 telecommunications history where an ILEC has effectively
4 squeezed an IXC from the market?

5 A That's kind of a general context.

6 Q It is.

7 A Certainly -- I would guess there are. I don't
8 know that I can give you specific examples. I mean, I
9 think we've, you know, seen some recent financial troubles
10 and bankruptcies by some of the newer carriers in the
11 market, which certainly part of that certainly could be
12 some price squeeze situations or potential price and cost
13 issues.

14 Q We have certainly seen some bankruptcies and I
15 assume you've seen some financial problems. Do you have
16 any basis to say that any of those are due to price
17 squeezes by an ILEC?

18 A I don't know the specific details of any of
19 those, you know, those circumstances. But I would think
20 some of that is possible.

21 Q But as you sit here today, can you give me any
22 examples of that?

23 A Not specific examples, no.

24 Q Can you give me examples of any situations where
25 Qwest has effectively squeezed an IXC out of the market?

1 A No, I guess I can't give you specific examples.
2 But I think, as we were previously discussing, in most
3 states anyway, there are some rules to try and prevent that
4 behavior from happening.

5 Q Such as imputation of costs?

6 A Yes. But, again, as I stated, that doesn't
7 prevent the real -- the real issue in the toll market. I
8 mean, that prevents Qwest from pricing below cost. But it
9 doesn't eliminate the situation of the difference that the
10 cost -- or the price difference that Qwest has on the
11 access in pricing their toll services.

12 Q You've been here throughout most of the hearing
13 today, correct?

14 A Pretty much.

15 Q And you've heard some reference to some
16 California PUC proceedings?

17 A Yes.

18 Q Are you aware that in the 1998 California PUC
19 proceeding, AT&T made the same arguments that it's
20 basically making here; that the Commission should reduce
21 switched access to economic cost? Are you aware of that?

22 A I don't know the specific details of the
23 California case, but I've heard that mentioned here. And
24 it doesn't -- I mean, it doesn't surprise me.

25 Q It wouldn't surprise you. It wouldn't surprise

1 you that AT&T argued that the Commission should do that to
2 avoid a price squeeze?

3 A That -- as I said, I'm not familiar with the
4 specifics of the case. But I'm not surprised that argument
5 was made.

6 Q Okay. And are you aware that the California
7 Commission found that the price floors that the Commission
8 had established were sufficient to prevent any
9 anti-competitive behavior?

10 A I don't know the details of what the Commission
11 ordered in that particular case.

12 Q Are you aware that AT&T, among others, pledged to
13 the California PUC that it would pass through the entire
14 amount of switched access reductions to consumers in the
15 form of intraLATA toll rates?

16 MR. TRINCHERO: Your Honor, I'm going to object
17 at this point. The witness has made it clear that she's
18 not really familiar with the specifics of that case. I
19 mean, the order says what it says.

20 ALJ CROWLEY: Right. I don't see that we're
21 benefitting the record with this line of questions.

22 MR. REICHMAN: I'll withdraw that.

23 Q BY MR. REICHMAN: Has AT&T made that sort of
24 pledge in this case?

25 A I'm trying to think of the exact words in my

1 testimony. Can I be clear as to what the pledge is?

2 Q Why don't I ask you another question.

3 A Okay.

4 Q Has AT&T pledged to the Commission in this case
5 that it will pass through the entire amount of any switched
6 access reductions to consumers in the form of lower
7 intraLATA toll rates?

8 A The way I would answer that, and I think has been
9 discussed throughout today and yesterday I think, is that
10 the toll market is a competitive market. And as costs come
11 down in the industry with, say, like an access reduction,
12 IXCs benefit from that cost reduction, AT&T and the
13 industry at large.

14 And, generally, as costs come down in a
15 competitive industry, prices come down. So in order to
16 remain competitive, we would be required to lower our toll
17 rates.

18 In addition to that, if Qwest's proposed toll
19 reduction is approved here, which is a significant
20 reduction, again, that's another effect on competitive
21 rates that would require us to reduce our rates in order --
22 if we wanted to remain competitive.

23 So, I mean, the answer is yes, we would be -- you
24 know, from a technical standpoint, I understand the
25 Commission here doesn't directly have jurisdiction over our

1 toll rates. But as a competitor in the intraLATA toll
2 market and in Oregon, we would be, you know, need to in
3 order to remain competitive.

4 Q So you said the answer to my question is yes.
5 Are you stating right here today that AT&T will pass
6 through the entire amount of switched access reductions to
7 consumers in the form of lower intraLATA toll rates?

8 A Well, the only caution to that I might add is
9 that I am not in the position of determining how we reduce
10 our toll rates. My position has to do with generally
11 costing and pricing of access and local services, unbundled
12 network elements. So I'm not involved in our strategic
13 pricing decision on our toll products.

14 But we have committed publicly, not only in
15 Oregon but in other states, I mean, that we will -- our
16 customers will see the benefit of access reductions.

17 Q AT&T has not committed that it will pass through
18 the entire amount of switched access reductions --

19 MR. TRINCHERO: Objection. Question asked and
20 answered.

21 MR. REICHMAN: I have not gotten an answer to
22 this question. I would like a clear answer with this
23 question.

24 ALJ CROWLEY: I agree with Mr. Reichman here.

25 Q BY MR. REICHMAN: AT&T has not committed in this

1 case that it will pass through the entire amount of
2 switched access reductions to consumers in the form of
3 intraLATA toll rates; am I right?

4 A If I was unclear about that, I didn't intend to
5 be. But that wasn't my intent to state that. As I said,
6 my caution was, I can't commit to exactly how that will be
7 done. But, yes, we will flow through the reductions in
8 access that are received in toll rates.

9 Q You're stating today -- because this is not in
10 your testimony -- you're stating today on the stand under
11 oath that AT&T will flow through the entire amount of
12 switched access reductions to Oregon consumers in the form
13 of lower intraLATA toll rates?

14 A I'm a little bit concerned, you know, what you
15 mean by "full amount". And whatever is ordered as an
16 access reduction, that information is passed along to our
17 strategic pricing group who then implements changes in our
18 toll rates that effectively provide the same amount in
19 reduction in access that we receive to the benefits to our
20 customers in toll rates. So the answer is yes.

21 Q And will AT&T report to the Commission and
22 demonstrate exactly how it has done that?

23 A That -- that is not the -- we've not been asked
24 to do that I guess I should say.

25 Q Well, you've never offered it before today.

1 MR. TRINCHERO: Excuse me. Your Honor?

2 ALJ CROWLEY: Yes.

3 MR. TRINCHERO: Is that a question?

4 ALJ CROWLEY: The question is?

5 MR. REICHMAN: Withdraw that.

6 ALJ CROWLEY: Thank you.

7 Q BY MR. REICHMAN: This commitment that you're
8 making, that is not in your testimony, correct?

9 A Well --

10 Q If it is in your testimony, I would like you to
11 show it to me.

12 A Well, I'm trying to find it. I guess I don't
13 know -- I don't remember what the exact words are in my
14 testimony or if I discussed it. I've filed testimony in a
15 lot of different states recently, and I'm trying to
16 remember exactly what's here.

17 Q Sure. And take your time.

18 A I think I was clear in my oral testimony just
19 now.

20 MR. TRINCHERO: Your Honor?

21 ALJ CROWLEY: Yes.

22 MR. TRINCHERO: I guess I'm going to object
23 because --

24 MR. REICHMAN: I haven't asked a question.

25 MR. TRINCHERO: Yes, you have asked her a

1 question. You've asked her whether or not she has made
2 that commitment in her written testimony.

3 We've had oral testimony in which she's made that
4 commitment. I don't see the point to what is basically an
5 asked and answered question being asked again.

6 ALJ CROWLEY: If it is not there -- it is or it
7 is not in her written testimony?

8 MR. REICHMAN: I don't think I've gotten a clear
9 answer to my question.

10 Q BY MR. REICHMAN: Are you saying that AT&T will
11 flow through penny for penny the full amount of switched
12 access rate reductions to Oregon consumers in the form of
13 intraLATA toll services?

14 MR. TRINCHERO: Objection, Your Honor. Asked and
15 answered.

16 MR. REICHMAN: I don't believe I've got a clear
17 answer to that. She said the information would be passed
18 on to the toll pricing people. But I don't think she
19 answered that specific question.

20 ALJ CROWLEY: I heard a yes there.

21 MR. REICHMAN: You heard a yes there. Okay.

22 Q BY MR. REICHMAN: The California Commission in
23 response to that pledge made in that California case
24 imposed some -- relied on that and imposed some reporting
25 obligations on AT&T.

1 Is AT&T willing to comply with the same reporting
2 obligations in this case?

3 MR. TRINCHERO: Your Honor, I'm going to object
4 on the grounds of relevance. This Commission does not have
5 any reporting requirements. This is a proceeding to
6 determine whether or not Qwest's proposed rates are fair,
7 just and reasonable. You know, I don't understand where
8 we're going with this, but it's certainly not relevant to
9 this proceeding.

10 ALJ CROWLEY: Mr. Reichman?

11 MR. REICHMAN: Well, she's made a pledge, and the
12 Commission may find that important to its decision. And if
13 the Commission does find that important to its decision, I
14 would think the Commission might also want to see if they
15 would be willing to prove that they have done what they
16 said they would do.

17 ALJ CROWLEY: All right. In the event that the
18 Commission needs this information, let's go ahead and
19 pursue it.

20 THE WITNESS: If I understand the question, I
21 mean, AT&T will comply with Commission orders. I mean, I
22 don't foresee that happening myself. But I guess if the
23 Commission orders that, we would certainly be willing to
24 comply with it.

25 Q BY MR. REICHMAN: Okay. I'll move on. There are

1 other ways that IXCs can recover switched access charges
2 other than including them in a strictly per minute toll
3 rate, correct?

4 A I'm sorry. Can you say that one more time?

5 Q Yes, I will. There are other ways that an IXC
6 can recover switched access charges from their customers
7 other than including it as part of a per minute toll rate,
8 correct?

9 A If you're referring to a plan that has a flat
10 rated recurring fee along with a per minute charge or
11 something, yes.

12 Q Okay. Now, isn't it true that AT&T recently
13 added a monthly charge of a dollar twenty-five per month to
14 customers in Colorado because of intrastate access
15 charges?

16 A Yes. I'm not familiar with all of the details of
17 that except as a customer that I got my in-state connection
18 fee card. Which basically the intent of that is because of
19 the high intrastate access rates in Colorado that -- the
20 example that you're using. The company did something. And
21 this isn't the exact methodology, but it looked at the
22 difference between interstate access rates and intrastate
23 rates and devised a flat rated monthly fee.

24 And this is very recent that they started this.
25 And I have forgotten the exact date of implementing it and

1 calling it an in-state connection fee on customers' bills.
2 And the offsetting impact of that is toll rates were
3 adjusted -- and I don't know if this is exact -- but to
4 make them more in line with interstate calling rates.

5 Q Is it just so --

6 A Because the access rate really that we were --
7 that was implemented.

8 Q Okay. Just so that we're clear, for Colorado
9 customers of AT&T for intraLATA toll, AT&T now charges them
10 a dollar twenty-five a month which is related to or
11 inspired by, if you will, the intrastate access charges?

12 A I think it is for not just intraLATA but
13 intrastate calls.

14 Q Okay.

15 A And intraLATA is a subset of that, yes.

16 Q I apologize. So the monthly charge of a dollar
17 twenty-five to customers in Colorado is for intrastate
18 access charges?

19 A And I'll have to say, again, that's my
20 understanding of it.

21 Q Is AT&T planning to do that in Oregon?

22 A I don't know the answer to that. I know we're
23 evaluating other states.

24 Q Has AT&T done it elsewhere besides Colorado?

25 A It was filed in the state of Washington, but I --

1 and I believe the current status of that is it is postponed
2 or withdrawn. And I might add to that that the rates are
3 different on state, depending on the intrastate access
4 rates.

5 And out of the 14 states that I handle, those are
6 the only two. There might be other ones outside of that.
7 There might be one or two, but I'm not aware of for sure
8 what states.

9 Q Okay. Your testimony includes some examples of a
10 margin analysis and alleged price squeeze. Are you
11 familiar with the examples I'm referring to?

12 I believe they're on -- I think it's Exhibit AT&T
13 8.

14 A Yes.

15 Q And these examples assume that IXCs incur
16 non-access costs of 4 cents per minute, correct?

17 A That assumption is made both for Qwest and an
18 IXC. The example is based on having the same cost other
19 than access.

20 Q But there's no evidence in the record that 4
21 cents is the accurate figure for an IXC's non-access cost,
22 is there? That's purely a hypothetical number?

23 A Right. And as my example notes on there, that
24 this is an illustrative example and is in no way intended
25 to claim those are the exact costs of Qwest or the IXC.

1 Q Now, based on that assumption for 4 cents for
2 non-accessed costs, you state in example Number 1 of margin
3 analysis that IXCs would have a gross margin of 3.4 cents
4 per minute if Qwest's proposed switched access rates were
5 adopted in this case, correct?

6 A Yes. And I think as Dr. Selwyn discussed
7 earlier, we may have chose a poor word by using "gross"
8 margin. But that is what the document says.

9 Q And actually you make a good point. In this
10 case, I believe in the case that Dr. Selwyn testified to,
11 gross margin was simply the difference between the price
12 and the access costs.

13 Here you're actually including other costs
14 besides access, correct?

15 A Yes. But I guess my point to that, I don't want
16 to imply that there aren't potentially other additional
17 costs and that the resulting figures are pure profit
18 necessarily. But what this represents is the difference
19 between the retail rate switched access and then direct --
20 direct cost associated with providing access services like
21 billing and collection.

22 Q Right. Now, you're not suggesting that an IXC
23 would exit a market in the face of a margin in this example
24 of 3.4 cents per minute, are you?

25 A No. The intent of my example is to show that it

1 makes it a more difficult economic situation for an IXC to
2 compete with Qwest when in doing absolutely nothing
3 different purely because Qwest is the provider of one of
4 the inputs to one -- to an IXC's retail service.

5 Q Now, your assumption is that both Qwest and the
6 IXC incur the same non-access costs, correct?

7 A Yes. Because the point of my example is to
8 demonstrate the effect of access, the rate of access and
9 the cost of access.

10 Q But it's actually possible that IXCs would incur
11 different non-access costs from Qwest, correct?

12 A It's certainly possible. Higher or lower.

13 Q Higher or lower. Sorry. I didn't understand.
14 Thank you.

15 Are you aware that in the 1998 decision the
16 California PUC noted that IXCs' costs other than switched
17 access are in the range of 1 to 2 cents?

18 A No, I am not familiar with that in the decision.

19 Q All right.

20 A And I guess it depends on what they were
21 including in that 1 to 2 cents, too, whether that's
22 relevant.

23 Q If you're not familiar, that's fine. I don't
24 want to ask you to speculate.

25 Earlier I referred to WorldCom's current average

1 gross margin, which is a confidential number which I will
2 not state here.

3 MS. HOPFENBECK: Thank you.

4 Q BY MR. REICHMAN: Were you present when that was
5 discussed?

6 A Yes.

7 Q What is AT&T's current gross margin for intraLATA
8 toll in Oregon? And if it's confidential, you can
9 certainly declare that.

10 A I don't have access to that information.

11 Q You don't know what that is?

12 A No. I've not calculated it. It's not part of my
13 direct responsibilities.

14 Q Okay. Even though you're submitting testimony on
15 a margin analysis and price squeeze, you don't know what
16 AT&T's margin is?

17 A I guess the purpose of my example was not to
18 provide AT&T's specific number but to show the effects of
19 access rates on the industry, on the intraLATA toll
20 industry.

21 Q Under some hypothetical assumptions?

22 A I think -- yeah. Yeah, hypothetical. But the
23 access rates used in this example are the current proposed
24 rates that Qwest is offering in this case.

25 Q The non-access costs are the ones that are

1 hypothetical?

2 A Yes.

3 Q Okay.

4 A And I should add that if you change those one way
5 or the other doesn't change the outcome of the analysis,
6 since I assume they were equal for both parties.

7 Q On that assumption. Correct.

8 Now, you state in your testimony on page 24 that
9 IXCs have no effective alternative to switched access to
10 provide long distance service to customers, correct?

11 It's page 24, lines 1, 2, 3.

12 A Yes. I see that.

13 Q Indeed, your examples that we've just been
14 looking at effectively assume that an IXC pays a switched
15 access rates for all toll calls, correct?

16 A Yes, it does.

17 Q Now, isn't it true that IXCs provide intraLATA
18 toll services in some instances without paying switched
19 access charges?

20 A Yes, there are some circumstances. But I think,
21 as Mr. McIntyre agreed with or pointed out in his
22 testimony, that generally is not true for any residential
23 customers or small businesses and applies to perhaps some
24 large businesses, but that's where we could be providing
25 special access and bypassing switched access. But that's a

1 very small percentage of the overall volume of traffic.

2 In addition, that doesn't eliminate the situation
3 of terminating access for all customers.

4 Q So one way that AT&T could avoid paying switched
5 access charges in providing intraLATA toll is through these
6 special access, correct?

7 A Only in the situation where a customer generates
8 enough volume of toll to make that cost effective, which is
9 not very -- it's not practical in the majority of cases.

10 Q It's not practical in the majority of cases but
11 it's practical for large volume customers, correct?

12 A Yeah. Assuming that that large volume is enough
13 to offset the cost of purchasing special access. Again, as
14 I said, it's a very small percentage.

15 Q Of customers?

16 A I'm not -- I haven't looked at customer
17 information. But of the accessed revenue or access expense
18 incurred.

19 Q Well, do you know what percent of minutes of
20 intraLATA toll that AT&T provides to Oregon customers are
21 routed over special access circuits?

22 A No. Because special access is not sold on a
23 minute of use basis or tracked that way. The special
24 access data that I have does not provide a minute formula
25 because it's flat rated.

1 Q When you charge customers for special access
2 circuits, you just charge them a flat rate for the
3 circuits; is that basically your understanding?

4 A Well, I assume that's true. I guess what I'm
5 looking at is the other side of the expense that we pay to
6 Qwest or other competitive providers for buying special
7 access. But I assume it's resold -- or AT&T's service is
8 sold the same way.

9 Q Now, when AT&T provides toll service over special
10 access circuits, doesn't it generally charge those
11 customers for the toll calls on it per minute of use
12 basis?

13 A I don't really know that I can answer on how we
14 market our services to toll customers. I mean, toll
15 services, the generic, you know, MTS toll is sold on a
16 minute of use basis, yes.

17 Q In fact, a lot of -- excuse me. Let me start it
18 over.

19 AT&T also sells service in a variety of calling
20 plans, correct?

21 A Yes.

22 Q And those are generally on minute of use basis,
23 correct?

24 A My guess is that there's a variety of ways to --
25 you know, that we offer the service and let customers buy

1 services, some flat rated some minutes of use.

2 Q As you sit here today, you just don't know the
3 percentage of intraLATA toll calls that AT&T carries which
4 are -- which travel over special access circuits?

5 MR. TRINCHERO: I guess I'm going to object.

6 Asked and answered. I believe that same question was posed
7 and the witness indicated that it's not tracked on a minute
8 of use basis. All she knows is how much they pay on
9 switched access versus how much they pay on special
10 access.

11 ALJ CROWLEY: I agree.

12 MR. REICHMAN: We also established that the toll
13 calls are tracked on a toll basis. But I think the
14 information is something that would be available. I just
15 want to establish whether she knows that or not.

16 ALJ CROWLEY: All right. Quickly finish up that
17 one.

18 MR. REICHMAN: I will.

19 MR. TRINCHERO: Actually, I just want to throw
20 something in. That mischaracterizes the witness's
21 testimony. I don't think we've established at all that
22 services are priced by AT&T for special access circuit on a
23 minimum of use basis. I think the witness said she didn't
24 know how that's priced, so I don't think we can assume that
25 in asking the question.

1 So maybe if you could rephrase or something.

2 MR. REICHMAN: Well, if I could.

3 ALJ CROWLEY: Go ahead. Let's clarify what we
4 have on the record here.

5 Q BY MR. REICHMAN: I just want to ask a question.
6 And if you can answer it, I will move on. I promise.

7 Can you testify today what percentage of AT&T's
8 intraLATA toll calls to Oregon customers travel over
9 special access circuits as opposed to through switched
10 access?

11 A No, I can't answer that question because I was --
12 I don't look at toll revenue that we sell. And in response
13 to discovery requests, I did look at some information which
14 we looked at the special access that we purchased in Oregon
15 and switched access that we purchased in Oregon. And I did
16 do some analysis on those figures which indicate that
17 special access is a very small percentage of the total
18 access that we pay.

19 That does not directly answer your question.

20 Q Right, that doesn't answer my question. That
21 tells you what your access costs, what percentage is
22 special as opposed to switched, correct?

23 A Yes.

24 Q Okay. So you did not do an analysis of the
25 information that we requested to determine the question I

1 asked you of what percentage of the toll traffic goes over
2 to special versus switched?

3 A Well, I think you can --

4 ALJ CROWLEY: Ms. Starr, I've got to interrupt
5 here. It would be really helpful to me if you would give a
6 yes or no answer first and then you can elaborate. But the
7 record is not going to show a clear yes or no on a lot of
8 these answers and we're going to have to dig a little to
9 find out what your testimony is.

10 THE WITNESS: Certainly. And I'm sorry. Now,
11 can you repeat what you just asked?

12 Q BY MR. REICHMAN: Sure. I'll try to restate it.

13 You analyzed certain data that we had asked for in
14 discovery to determine what percentage AT&T's special
15 access costs bear to AT&T overall access costs?

16 A Yes.

17 Q But you did not analyze that information to
18 determine what percentage of the toll traffic measured by
19 minutes of use travels over special access versus through
20 switched access; is that correct?

21 A Yes, that's correct. And because I'm not -- I
22 don't believe we were specifically asked for that
23 information. And, in addition, the toll -- I don't know
24 that we have toll -- we have toll revenue data that we
25 would sell to our customers and minute of use data. I

1 don't know that we have a way from that information to
2 determine how much of that is provided over switched
3 circuits or special access circuits.

4 What I was trying to make clear, which I'm not
5 sure I did, was from my analysis of looking at it from a
6 different view, to try to make some implications, to answer
7 your question, was that since what we pay in special access
8 is a very small percentage of our total access bill that we
9 pay in Oregon, that from there I implied that it's a small
10 percentage of traffic going over special access circuits.

11 Q Now, Mr. McIntyre has testified that the volume
12 of traffic that can travel over special access circuits --
13 have you read that?

14 A Yes.

15 Q It is a relatively large volume, is it not, that
16 can travel over special access circuits in one month?

17 A I think his analysis showed -- was trying to show
18 the amount of volume that would make it cost effective for
19 an IXC to purchase special access. And that volume was
20 significant, 250 some thousand minutes I believe.

21 Q Well, in fact, the 250 something thousand minutes
22 is the capacity, if you will, for a special access circuit
23 in a month, correct?

24 A I'd have to go back and read his testimony, but I
25 believe that's what -- that in conjunction with his

1 analysis showed the toll revenue associated with that.

2 Q Just to be clear, the 250,000 was a capacity. It
3 wasn't the break even point. Is that what your
4 recollection is?

5 A I guess since it's Mr. McIntyre's testimony, it's
6 not entirely clear to me.

7 Q Okay. That's fine. We'll let Mr. McIntyre's
8 testimony speak to that.

9 One other brief questioning or area of
10 questions. Another way that an IXC could avoid switched
11 access charges would be to provide local service to a
12 specific customer either of its own facilities or through
13 the purchase of UNEs, correct?

14 A For originating access, that's true.

15 Q And it would also cover terminating access for
16 calls to that particular customer, right?

17 A That's true.

18 MR. REICHMAN: Thank you. I have no further
19 questions.

20 ALJ CROWLEY: Thank you. Mr. Trincherro?

21 MR. TRINCHERO: There's no cross from anyone
22 else?

23 MR. WEIRICH: No cross.

24 MR. MANIFOLD: No cross.

25 MR. TRINCHERO: All right. Thank you.

1

--ooOoo--

2

REDIRECT EXAMINATION

3 BY MR. TRINCHERO:

4 Q Ms. Starr, you were asked some questions about
5 reporting to the Commission on switched access reduction
6 flow throughs. Do you recall that?

7 A Yes.

8 Q Are you aware of any Commission order, Commission
9 rules, state statutes, that would require such a reporting.

10 MR. REICHMAN: I'm sorry. I'm having a hard time
11 hearing you.

12 MR. TRINCHERO: Oh, I'm sorry. I was asking the
13 witness if she was aware of whether or not there were any
14 Commission orders, rules or state statutes that would
15 require such reporting.

16 MR. REICHMAN: Thank you.

17 THE WITNESS: I assume you mean in Oregon?

18 Q BY MR. TRINCHERO: In Oregon, yes.

19 A No, I'm not aware that any current rules or
20 orders exist that would require that.

21 Q And Mr. Reichman indicated that in California
22 apparently there has been some reporting ordered.

23 Are you familiar with California law on that
24 subject?

25 A No, I'm not.

1 Q And you're not familiar with whether or not there
2 might be a difference between California law And Oregon law
3 as far as it relates to that issue?

4 A I'm not familiar with California law.

5 Q You were also asked a couple of questions about a
6 rate re-structure that AT&T implemented in Colorado that
7 had a flat rate that was imposed on intrastate calling.

8 Is the intent behind that to allow AT&T to offer
9 customers a per minute of use rate on an intrastate basis
10 that matches the interstate rates?

11 MR. REICHMAN: I'm going to object to the leading
12 question.

13 ALJ CROWLEY: Would you rephrase your question.

14 Q BY MR. TRINCHERO: Ms. Starr, are you aware of
15 the intent behind that new calling plan?

16 A Yes. But I kind of want to start by saying that
17 I'm not directly involved, you know, with establishing that
18 plan and don't really know all the details behind it, I
19 think as I had said earlier.

20 But I believe the intent was to -- or part of the
21 intent anyway was to help alleviate confusion between
22 interstate calling plans and intrastate calling plans and
23 lower the Colorado, in this example intrastate calling
24 plan, to put them more in line with the interstate calling
25 plans.

1 And to allow us to do that, because of the
2 difference in access rates on an intrastate and interstate
3 basis, the interstate connection fee was assessed on
4 customers' bills. I don't want to imply I guess that the
5 Colorado intrastate rates exactly match the interstate
6 calling plans. I understand the intent was to put them
7 more in line. So, yes.

8 MR. TRINCHERO: Thank you. One more moment. I
9 have nothing further, Your Honor.

10 ALJ CROWLEY: Thank you. Any follow up? Thank
11 you very much, Ms. Starr. You're excused as a witness.

12 Ms. Hopfenbeck, earlier optimistically you asked me
13 if we wanted to start a witness today. I don't think so.

14 MS. HOPFENBECK: I think I wouldn't have asked
15 either.

16 ALJ CROWLEY: We'll reconvene tomorrow morning.
17 We'll return tomorrow morning at 9:30.

18 (Recess taken)

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S
\$20,000 232:20
\$300 230:10 232:19
\$305 200:14
\$40 293:21
\$6.3 261:25

0
0 136:25 137:1,5,9 138:18,23 140:24 143:15,16,18 157:12 250:8 290:10,13 295:9,15,22 296:1
0's 142:1
0.2 158:3
0.44 160:21 172:12 180:17
0.5 157:21 181:4 222:11
0.50 160:22
0.723 215:24
0.8 291:16
04-026 134:19 135:1 145:3
04-027 134:20 135:9,14
04-028 146:10
04-037 158:17
05 206:13

1
1 132:25 136:25,25 137:5,10,20 138:3,15,23,24,25 139:3 149:7 169:3,19,25 182:14 183:24 184:1,3,23 207:10,18 217:22 220:16 221:2,11,13 232:10 239:13 254:17 274:9,12 276:10 298:21 299:18,20 323:2 324:17,21 326:11
1's 142:1 169:19,25 170:12
1-1-95 210:3
1.7 275:25
1/2 290:22
1:15 212:24
1:30 212:25 213:3
10 126:12 259:24
100 264:13
102 262:25 263:2 284:22
102/UT 272:20 273:2
10Q 165:10
11 134:15,20 135:11 136:13 144:4,15 145:2,4 147:6 153:22 167:1,6,11 168:5 169:10,11 171:1,13,24 179:18 215:23 216:7 256:13 258:22 259:24
116 295:7
12 134:15,20 135:9 142:9 144:5,7 145:2 167:1,6,12 179:18 259:24 260:18 263:15 271:21 276:18
120 288:2
123 279:3,4,15 294:16
125 134:18
13 146:7 167:1,6,12 290:22
13.5 291:14
14 158:13 167:1,6,12 172:10 280:7,23 288:18 322:5
14.39 278:18
141 274:8,11,15 283:19 286:6,16 287:21 288:17
143 274:8,11,15
15 165:11,12,13 167:2 270:5 278:16,22 279:10 281:20 290:25 294:19
16 153:17 183:1 270:5
17 148:4,5 183:1
18 148:4 197:1 270:16
19 130:9 135:17 143:22 165:21 183:1 204:23 270:16 281:13
19,700 230:13 234:7

1980s 213:18
1984 264:10
1987 206:23
1989 209:13 216:16 264:11
1990 216:2,16 223:23 262:24 269:11,13,17
1994 172:23 180:22 200:8,10 206:3,14 207:16 208:14 228:12 238:18 244:8,14
1995 157:23 159:18 160:5,9 180:21 200:7 207:10,18,24 241:6,10,13,21
1996 159:19,25 160:10 221:18
1997 169:12 213:18 228:3 242:1 256:17,17 269:16 286:15 287:25
1998 158:2 159:4 181:10 200:7,8,12 208:1,15 209:7,20,23 210:6,12 244:8,13,15 246:8 281:6 286:17 288:18 312:18 324:15
1999 144:1,2 159:11,24 160:4,14 168:12 219:12 221:17 227:24 228:6 266:6 280:9
1st 310:4

2
2 125:3 132:22 136:13 142:21 143:7 149:22 171:1 181:13 184:4,7 218:20 276:10 324:17,21 326:11
2,652,000 275:22 276:1
2.3 262:16
2.6 299:5
2.77 281:5
2.9 185:21 186:5
20 158:25 160:7 183:1 204:23 208:8,24 209:23 238:23 259:25 260:18
20,000 230:10,12
2000 125:3,10,12,14,15 126:1,1,2 132:22 141:7 154:2 213:19,19 216:6 265:24 269:14
2001 124:1
20th 159:18
21 148:11 157:19 259:25 260:19
22 149:1 154:18
222 125:2
223 285:20 286:2
226 127:16,25 129:14
227 127:18 129:14
228 223:22
23 270:4 300:12,16
23.4 262:10
232 192:15,17,20 193:9 194:5 229:12 231:16 232:10
233 273:12 279:18,22
234 278:25 280:1,5 290:4 294:6,7 297:3
23rd 159:19
24 132:21,23,25 135:4,5 295:12 326:8,11
25 232:10 305:25
25.7 262:8,9
250 332:20,21
250,000 333:2
251 300:19,20
252 300:13 301:4,14,22 302:11
26 154:17
27 154:16
277 281:16 285:4
28 263:16 299:3
29 209:20

3
3 133:9 149:25 184:7 194:12 197:1

209:12 216:7 220:13 221:5,10 222:15 239:15 253:7 254:15,19 262:3 286:2 290:14 299:3 326:11
3.01 125:6
3.3 185:22 190:12,24
3.31 186:5
3.4 323:3,24
30 124:1 293:21
300 230:12 293:22
32 127:25 128:5,8,9,12,15 262:6
34 128:6,13,19,24
3632 222:15 261:5 262:22 263:8,20,22,25
364 281:14
38 223:5

4
4 150:18 184:8 197:1 271:21 272:7 278:6 290:14 322:16,20 323:1
4.90 125:19
40 128:2,20 267:4 276:15
41 157:17 180:23
43 204:23
44 172:22 222:24
45 212:19
48 149:12 151:13

5
5 127:25 128:5,8 143:17,20 150:23 181:6 184:8,23 223:7 228:12 297:9 300:16 310:9,10,12
5.86 125:5
50 265:5
54 217:16,22 239:12
55 217:16 239:12

6
6 125:2 150:24
6.21 185:20 186:3
6.258 262:3
6.3 262:18
6.6 299:4,6
60 128:3,21,25
64 215:15
65 172:23
6500 172:23
66 160:17 172:10

7
7 184:1 292:19
723 216:16
759.410 310:8
7A 184:4

8
8 128:6,13,19 130:9 150:23 184:1 216:5,16 248:9 259:24 260:18 262:2 270:4 298:21 299:18,20 322:13
8.6 262:19
800 199:4,11,12
80s 213:24
844 300:6,9 302:6,11,16,22,25 303:4,7 304:12
85 263:2 272:20 273:3,25 284:22

9
9 259:24 276:18
9:30 336:17
90 274:11,12
94 200:9 209:14 238:21 239:2 245:10,22,25
95 264:25 265:3
97 132:22 147:13,18 213:24 258:24,24 259:3 287:7

98 209:14 238:23 239:1 245:10,22 246:4
986 274:17
99 141:6 144:14,14 145:15 147:14,18 148:1 154:2,13 310:4

A
A-n-i-r-u-d-d-h-a 127:13
AARP 216:7
AARP's 216:4
ability 154:22
able 131:11 132:17 136:2 145:12 153:7 170:23 212:10 215:5 287:11 301:2 304:2
above 159:1 191:18 231:18 232:12 233:1
absolute 206:8 218:9 296:1
absolutely 139:22 141:15 178:14 205:25 207:12 229:2 235:1 249:3 252:20,22 309:3 324:2
abundance 195:11
abundantly 207:6
accept 276:13 281:23 282:11,15,21
accepted 159:19
accessed 327:17
accessing 304:6
accompany 193:4
accomplish 212:10
accomplished 188:5
according 302:3
accordingly 183:8 300:21
account 152:23 163:11 166:8 173:17,23 174:21 231:1 256:14,18 271:14 294:13
accounted 172:4 271:16
accurate 135:25 142:18 254:4,13,20 299:14 322:21
accurately 255:15 275:19
achieve 161:23
acknowledged 163:6
acronym 224:1
across 172:24
Act 210:8 221:18 247:15,16 300:14 301:12,13 303:6
acting 205:22
actions 156:5 247:5
active 203:14,17
activities 150:1 247:11
activity 224:1,10 230:5 272:16
actual 137:20 176:14 222:23 223:8 294:22
actually 128:6 129:17 141:11 147:20 150:8,12 153:5 154:17 155:19 176:8,10 180:22 188:2 200:11 206:19,23 223:2,3 237:4 244:24 263:1 268:14 285:12 287:12 295:7 323:9,13 324:10 329:19
add 315:8 322:2 326:4
added 230:5 271:7 320:13
addition 231:4 303:16 309:22 314:18 327:2 331:23
additional 124:14,16 139:18 147:4 211:18 229:5 323:16
address 162:24 164:4 166:3,10,22 172:25 184:2,5 249:17 252:16 270:1
addressed 166:14 169:21 273:19
addresses 224:19
addressing 166:19
adjust 186:20 225:8 261:17 304:19

adjusted 256:14,18 257:7,12 321:3	amount 183:18 187:7 188:14 189:4 190:16 192:4 202:4 203:18 233:13,15 234:10 246:1 247:8,13 286:22 288:22 293:23 303:16 313:14 314:5 315:6,18 316:1,11,15,18 318:11 332:18	appropriate 163:13 166:6,22 180:17 181:8 205:22 221:6,25 224:15,20 225:3 236:16,20 244:22 246:17 248:25 249:6,9,12,16 255:10,13 257:22 280:20	attempted 164:4
adjusting 177:10	amounts 247:22	approved 228:3 314:19	attempting 220:8
adjustment 138:16 166:7 257:18 258:7	analysis 145:24 146:15,23 149:11 150:14 151:2,3,8,10,15 152:8,23 153:1,17,21 159:2,6 160:12,13 173:10,11,23 175:21,22 183:15,16 189:13 221:13 235:13 236:1 237:24 248:1,13,22 249:1,9,13,14 250:3,24,25 251:13,14,17 252:12,21 254:15 255:7 258:8 270:23 271:5,8,9,12,13 291:3,4,12 299:8 322:10 323:3 325:15 326:5 330:16,24 332:5,17 333:1	approximate 275:23	attention 168:4 229:14 248:15 272:15
adjustments 166:15 187:18 258:5	analyst 220:8 221:8 255:8	approximately 190:6 213:18 261:25 262:6,7 281:20 286:7	attract 177:15 268:10 297:16
Administrative 127:1 181:21 259:17 298:4	analyze 261:14 331:17	April 227:24	attributable 258:25
admission 167:1 184:23 194:5	analyzed 331:13	area 194:25 272:23 294:1 333:9	August 242:1 286:15 287:7,25
admit 167:11	analyzing 175:17 261:5	areas 238:16	author 272:8 276:19 295:1
admitted 129:20 167:12 168:4 185:1 194:8 260:16 279:22 281:3 286:4 299:20	ANIRUDDHA 127:5,13	aren't 139:10 205:21 275:4 323:16	authorization 210:14
adopt 206:13 222:11 223:15	announcement 211:23	argued 200:16 313:1	authorized 179:20
adopted 181:4,6 206:25 208:23 209:13,14,14 218:11 221:16 222:12 223:7,15 228:12 323:5	announcing 170:23	argument 200:24,25 201:2,5,8 313:4	automatically 170:16
adopting 215:24 240:23 242:3 252:18	annual 273:23	arguments 312:19	automobile 230:7,16 231:10 234:6
adoption 208:20 219:11 239:17	another 136:17 152:2 166:4 169:17 178:1,12 187:15 235:15 236:19 252:16 276:3 282:24 314:2,20 333:10	arithmetical 185:23	avail 303:22
advance 194:17	answer 125:25 132:3,5 139:12 149:11,18 151:5 164:2 172:21 202:16,19 226:9,13 231:14 243:22 235:23 236:8 237:5 242:12 246:22 264:3 270:1,21 273:17,20 275:4 280:5 301:20 307:2 314:8,23 315:4,21,22 316:20 318:9,17 321:22 328:13 330:6,11,19,20 331:6 332:6	Arlene 298:7,12	availability 267:21
advancing 252:20	answered 315:20 318:5,15,19 329:6	Armando 290:4	available 129:22 131:16 234:11 329:14
advantage 170:17 219:16 308:18,25 309:4,9,12,21	answering 294:21	Around 149:8 152:18 264:20,21,21,24 266:12,15 268:24,25 273:11 279:8	average 125:4,6,8,12,18,20 128:12 146:13,25 147:1 187:6 191:2,17 209:2 227:8 229:25 231:17,22 232:11,23,25 234:2,2 235:2 263:5,8,19,22 278:15,21 279:10 281:16 290:20,20 291:13 294:19 324:25
advertisements 292:24 297:8,13	answers 129:10 184:17 202:22,23 212:18 234:21 299:12 305:20 331:8	ARPM 147:2 185:20 187:5 190:10 209:9,16	averages 125:19
advertising 292:8,23	anti 201:17	arriving 183:4	avoid 199:14 201:1 303:23 313:2 327:4 333:10
advised 183:5	anti-competitive 313:9	art 136:23	aware 134:8 170:21 177:15 180:11,18 181:6 184:14 191:2,16,20 201:23 202:2 210:15 241:5,9,20,24 242:8,13,15,19,20,24,25 243:20,24 250:23 251:1,20 273:3,6 278:15,19,23 285:10 293:17 311:2 312:18,21 313:6,12 322:7 324:15 334:8,13,19 335:14
advocate 206:12	anticipate 267:5	article 158:21 159:15,23,24 160:3,5,17 172:9 180:15 181:2 222:21 290:4,8 295:5,8	away 174:24 310:6
advocated 281:13,13	anticipation 207:12	articles 167:7	awful 230:19
affect 138:9 140:2 148:6 153:8 217:19 262:13 269:21 270:8	anybody 289:7	aside 177:4	awhile 243:4
affected 149:15 227:9	anyway 220:20 308:12 310:5 312:3 335:21	aspect 216:20	
affects 138:7,8	apart 145:14 169:24 228:20	asserting 302:15	
afraid 165:23	apologize 191:14,24,25 201:9 272:24 281:12 321:16	asserts 185:19	
afternoon 213:10,12 261:2,3 290:1,2 298:18,19 300:3,4	apparently 334:22	assessed 336:3	
Afterwards 288:25	appear 144:17 216:18 273:23	assessment 254:23,25 255:2,3	
ago 142:4 189:15 227:7	appears 184:1,3 193:14,17,18 227:8	assessments 254:23,25 255:2,3	
agree 128:12 139:11 148:23 153:14 155:13,14,17 168:11,13 169:16 170:14,19 173:18 176:24 179:4 204:9,16 205:6 212:2 216:9,15 254:3 264:13,16,19,25 265:2,5,21 267:10,22 268:24 269:13,20 270:7,19 276:9 277:14,21,23 278:10 281:19 290:25 297:12 303:3 306:4,19,23 307:18 308:1 310:21,24 315:24 329:11	appended 142:9	assimilate 185:17	
agreed 125:9 326:21	applicable 276:21	associate 195:12	
agreements 237:6	applied 287:4 304:24	associated 161:10 209:15 218:2 233:19 251:24 302:9 323:20 333:1	
ahead 164:1 169:2 246:22 249:22 274:19 291:8 292:1 319:18 330:3	applies 305:3 310:12 326:23	associates 195:10	
alleged 322:10	apply 183:20 261:4 301:6,23 303:7	Assume 153:4,9 154:14 156:5,18 166:23 186:7 187:11 191:22 197:14,18 198:11 206:9 212:6 218:6 222:4 237:7 304:8 311:15 322:15 326:6,14 328:4,7 329:24 334:17	
alleviate 335:21	appreciate 185:18 201:23 259:10 267:18 301:19	assumed 151:15 218:17 285:3 291:16	
allow 163:25 172:19 217:15 224:22 241:17 243:18 247:11 252:15 272:17 275:6,7 282:8 301:16 335:8 336:1	approach 133:23 146:3 158:9 165:7 206:8 248:5 252:1 285:23 291:6	assumes 186:9 187:5 205:11 248:17	
allowed 296:16	approaches 295:9,25	assuming 156:14 185:23 188:17 215:1 232:18 282:18 327:12	
allowing 251:5	approaching 295:21	assumption 138:13 139:15 151:20 153:15 187:5,10 188:10,12,19 189:24 225:5 261:8 322:17 323:1 324:5 326:7	
alluded 303:10		assumptions 179:2 190:8 325:21	
alone 218:20 247:2 301:3		assure 252:6	
already 128:25 198:3 208:1,13 220:20 249:20 286:4		asterisk 248:16	
alternative 175:12 269:5 326:9		AT&T's 325:7,16,18 328:7 330:7 331:14	
Although 190:14 210:8 223:6 226:23 247:17 286:18		AT&T/WorldCom 182:14 183:24 184:7,7,8,8,23 209:12	
ambitious 151:24		attached 127:18 135:11 172:9	
American 199:22		attaches 167:8	
among 141:2 215:6 313:12		Attachment 146:15,16 147:7 153:23 194:12 229:15	
		attempt 131:15 243:22 255:11,18 270:23	
			B
			B-a-n-e-r-j-e 127:14
			back 128:10,16 130:6 135:17 138:17 139:11 143:22 153:22 171:13 173:5 174:20 195:19 196:24 203:8 226:9,9,13 237:4 244:24,25 247:6 256:10 257:11,13 258:12,19 276:17,18 282:2,14,24 288:20 289:16 293:5 310:19 332:24
			background 307:15
			bad 247:21
			Bailey 223:22 224:14 272:8
			Bailey's 223:22 224:17,18 271:11
			balance 155:25
			Banerjee 126:8,22 127:5,11,14 129:21 130:3,8 134:22 146:9 151:4 158:18 163:10 165:14 166:21 167:17,24 168:1 169:7 171:21 179:13 180:14 181:17 222:22 252:1 255:12 257:14,15,19,22 258:3,8,14 259:7 265:15 277:20
			Banerjee's 163:3 266:14
			bankruptcies 311:10,14
			bars 143:12
			base 286:19,21,25 287:3,3 291:12
			based 125:3,14 126:2 158:25 172:23 175:11,11 189:22 190:8 220:11 233:9 238:25 239:1 241:25 262:5 276:11 281:8 302:20 322:18 323:1
			basic 209:20
			basically 175:2 186:2 217:18 219:12 224:3 225:18 226:8 239:12,18 312:20 318:4 320:18 328:3
			basis 125:17,20 131:5,6 152:5 170:

24 191:19 221:25 231:20 243:15
246:11 259:4 262:21 277:22 278:
12,13 311:16 327:23 328:12,16,22
329:8,13,23 335:9 336:3
bear 331:15
became 169:12 259:3
become 170:21 226:16 250:9
becomes 214:4,10,15,23 215:4
225:18 278:21 279:9 294:18,23
295:2,10,20,25 305:10 310:15
becoming 171:25 178:15 265:16
began 206:23
Beginning 148:5 168:12 185:16
207:2 270:6 291:12 295:5,6
begins 147:25 154:18
behalf 127:6 159:3 182:4,19 260:3
298:13
behave 132:11
behaved 131:19 150:11
behavior 145:21,22 174:16 201:
18 312:4 313:9
behind 130:4 335:8,15,18
belied 157:22
belief 212:8 239:4 288:21
believe 126:12 128:25 129:23 131:
22 134:15 138:16 139:16 145:3,4
156:1 163:20 169:21 171:24 172:
10,13,16 175:16,19,23 176:4,20
186:14,19,25 189:24 192:16 194:
17 200:19,22,23,24 201:14 202:7
207:14 211:14 215:18 218:8 231:
14 236:5 237:20 238:7,17 239:5
240:12,21 250:20 259:23 262:2
269:4 271:17,24 284:18 285:14
295:9 309:3 318:16 322:1,12 323:
10 329:6 331:22 332:20,25 335:20
believed 292:25
believes 163:12
Bell 159:4 180:19 181:12 200:13
206:4,4 208:3 209:3 210:13 223:2
226:7 227:24 238:17,23 245:7
Bell's 157:22 181:7
belongs 136:3
below 279:10 294:19 304:16 305:
1 307:21 308:4,9 309:16,20 312:8
bends 140:6
beneath 248:16
benefit 287:14 314:12 315:16
benefits 316:19
benefitting 313:21
beside 269:20
Besides 139:21 141:17 173:25
270:5,8 281:3 321:24 323:14
best 151:25 184:19 197:10 203:3,
16 299:14
better 277:18 308:19
between 131:10,16 132:18 140:5
141:6 144:17 147:13,18 152:2 154:
2 157:6 161:16 177:1 199:14 229:
23 230:12,17,25,25 231:8 234:2
244:12 245:22 250:20,25 257:7
262:20 306:17 309:5,13 320:22
323:11,19 335:2,21
beyond 151:11 162:21,22 163:20,
21 164:15 178:24 179:3 241:19
288:4
bias 174:22
big 177:2,4
bill 126:13,15,16 149:2 157:4 177:
20,23 178:1,1,2,3,5,12,13 210:24
211:5,7,9,10,11,16,17,19 231:2

332:8
billing 212:11 242:1 323:21
bills 212:4 278:3 321:1 336:4
binary 136:24
bit 159:25 169:10 185:16 190:7,7
213:1 270:22 316:14
blending 125:18
block 300:6,10
board 138:21,21
bombard 177:22
book 160:4,14 280:9
Both 136:21 144:13 174:2 187:19
199:17 208:25 209:1 225:23 233:
18 235:6,19 244:7 246:1 253:25
293:23 322:17 324:5 326:6
bottom 154:17 217:22 263:21 276:
1 279:7,14 304:21
boundary 241:19
break 153:19 165:7 171:11 212:
22,23 256:4 289:15 333:3
brief 202:1 333:9
briefly 133:13 217:9
bring 139:18 145:25 248:15
broader 130:19
brought 195:19 292:2
building 145:17 150:21 300:6,10
built 144:9 152:15
bullet 148:11 149:1
bump 155:18
bunch 255:5
business 125:5,18 184:2 192:9
197:15 198:13 225:16 233:12 234:
22,23 236:12
businesses 227:2 326:23,24
buy 301:2 328:25
buying 198:24,25 328:6
buys 230:8
bypass 264:23
bypassing 326:25

C

Cal 223:15
calculate 125:7,11,17 274:2 276:
12
calculated 209:16 263:5 325:12
calculates 262:4
calculating 308:15
calculation 124:15 222:1 275:9
278:18
calculations 144:17,20 145:9
calculator 185:25 274:17
California 157:20 158:1 159:4,9
160:6 181:3,4,6 200:7,12,17 201:
12,16 202:3,8,13,16,19 203:2,11
206:2,4,13,16,18,21 207:11,16,21
208:2 209:19,23 210:7,11 222:12,
23 227:21,23 228:7,11 238:19 244:
8,13 245:12,23 246:4,7 312:16,18,
23 313:6,13 318:22,23 324:16 334:
21,23 335:2,4
call 125:5,20 126:7,21 196:12 199:
21,25 225:23,25 226:6,8,10,14,20,
21,22 227:1 230:25 233:19 237:12
259:13 267:11 268:11,19 271:2
295:11 308:17
called 127:6 136:14,22 141:22
143:4 168:2 176:25 182:4 223:25
240:14 260:3 266:14 298:13 309:4
caller 189:10
callers 268:10
calling 142:15,16 149:3,8 199:21
268:25 269:2,4,5,7 270:11 297:18

321:1,4 328:19 335:7,15,22,22,23,
24 336:6
calls 125:5 197:19 199:3,4 210:25
216:6,20 226:18 235:9 237:23 261:
10,11 267:9 268:15 278:16 290:16,
17,21 291:2,3,12,14 292:8,19 293:
17 296:22 297:1 321:13 326:15
328:11 329:3,13 330:8 333:16
came 135:14 216:2
Cameron 216:4
candidate 148:19 173:4
candidates 153:13 199:17
cannot 140:9 175:20 304:16
cap 216:3,17 305:13 310:17
capacity 332:22 333:2
capita 132:8
capture 138:2 140:7 151:9 152:17
captured 151:16,18 153:20 174:
17 251:13
capturing 132:14
car 230:10,12,18,20 234:7,8
card 149:8 269:2,4,5 320:18
cards 177:20 268:25 269:7
care 157:5
carefully 202:15
Carrier 159:8 169:12 172:1 175:3
179:24 187:22,25 188:25 190:20
194:23 196:9,10 197:7,8,11,22
198:13 219:15 229:25 230:1,24
231:11 234:4 235:18,21 256:15,19
259:3 264:22 266:4 288:3
carriers 174:20 175:3,9,24 176:21
177:15 178:9 187:22 188:7 190:17
235:10 265:16 266:10 287:11 288:
5,12,15 293:9 297:9,13,14,16,21
303:15 311:10
carries 329:3
cases 199:3 211:2 236:4,7,10 244:
10 246:15 250:24 268:14,16 273:4
327:9,10
casual 147:17
categories 189:11
category 187:14 199:17
causal 151:22,25 180:2
causality 152:3
cause 219:1,6,13
caused 218:22
caution 136:1 195:12 274:24 315:
8 316:6
CAV 224:1,4
caveat 241:18
CCP 142:13 145:10 147:10,11
150:5,19
CCPMOU 128:20
CCPs 142:12
ceiling 304:17
cell 293:13,17,18
cellular 150:24 175:11 178:3 220:
19 255:20 267:21
cent 199:20 292:23 297:9 299:4
Center 184:4
cents 185:20,21,22 186:5 190:12,
24 278:6,16,18,22 279:11 290:22
291:1,14 292:19 294:20 299:5 322:
16,21 323:1,3,24 324:17,21
certain 131:22 144:10 157:12 164:
10 178:9 183:6 189:11 226:12,22
242:10 256:13,14 273:24 280:19
281:25 292:20 293:22 303:18 304:
10 331:13
certainly 147:22 149:13,19 154:

14 157:8 175:1 187:2,14 189:22
190:4 191:22 210:10 212:5 214:16
216:18 220:12 221:10 226:2 240:
17 257:11 264:19 282:5 302:23
303:1 306:14 311:7,11,11,14 319:
8,23 324:12 325:9 331:10
cetera 172:22
chalk 138:21
chance 125:11 143:16,19 160:3
change 130:23 137:20 139:17 152:
25 161:19 162:2 174:19 175:18
177:6 183:15 205:14 209:3,5,6
215:1 218:16,20 219:20 220:17,21,
22,24,25 221:15 222:1 223:17 225:
6,12 239:20,23 240:3,3,4,8,10,11
243:23 252:11,21 253:19 263:13,
19 269:15 285:13 286:22 288:6,12,
15 308:24 326:4,5
changed 128:2 141:4,5 184:2
changes 130:25 133:21 144:21,22,
24 145:11,13 150:10,11,15,18 154:
5 157:10,15 162:5 163:18 166:5
170:21 174:4,14,14,15,15 175:8,13,
14 176:7,22 183:3,9,14 185:17
204:6 206:25 209:15 210:2 227:10
255:15,17,21 262:13 271:6 272:9
276:22 285:19 286:6 299:8 316:17
changing 133:18 139:23 178:21
characteristic 138:10
characterization 230:4 231:13
characterize 131:15 135:2,12
136:4,5 139:18 171:1 230:11
characterized 129:16 164:6 223:
4
charge 186:4 188:1 211:3,18,20
288:3,7 304:16 305:12 320:10,13
321:16 328:1,2,10
charged 233:17,17 236:13 249:10
288:8
charges 147:3 174:4,4 183:20 187:
21 188:5 196:17 197:13 199:24
200:3 201:12 209:24 231:11 233:8
235:11,15,24 236:25 238:2,8 248:
23 249:10 250:3,6 303:23 305:6
320:1,6,15 321:9,11,18 326:19
327:5 333:11
chart 248:16 250:2
charted 135:11
charts 239:11
check 216:8 223:1 251:21 252:12
281:23 282:1,12,22 283:13 309:22
checking 282:6
choice 157:20 190:16 229:22 287:
9
choose 156:9,9,11 266:4 287:11
chose 249:2 323:7
circuit 197:24 198:12,17 199:7,10
200:2 329:22 332:22
circuits 327:21 328:2,3,10 329:4
330:9 332:3,3,10,12,16
circumstance 236:16 311:2
circumstances 208:21 244:10,12,
13 245:12,14 268:16 311:19 326:
20
cite 150:24 158:6 202:1 247:17
cited 183:7 222:22 242:13 301:11
claim 151:24 161:18 322:25
clarification 126:10 143:21 159:
21 185:5 195:13 205:2 209:5 238:
7,14 256:11,21,25 257:3 258:21
259:6 267:12 281:25

<p>clarified 191:1 clarify 125:13 126:14,17 160:1,2 165:17 245:13 257:10 258:21 282: 3 300:9 301:14 330:3 clarifying 128:24 195:6 clear 125:25 128:14 129:6 187:4 188:10 192:1 197:2 207:5,6 211: 15 227:22 228:16 257:19 258:21 283:14 288:16 294:13 305:19 313: 17 314:1 315:22 317:18 318:8,16 321:8 331:7 332:4 333:2,6 clearer 309:11 clearly 173:2 214:2 217:2 233:5 235:20 CLEC 233:11 303:25 CLECs' 253:11 clients 186:17 close 124:12 264:16 closed 199:14 242:1 276:23 279: 11 code 264:22 coefficient 143:15 collapse 190:11 collapsing 190:23 collect 254:22 collected 152:19 collection 323:21 collectively 152:15 Colorado 320:14,19 321:8,17,24 335:6,23 336:5 column 136:13,17 137:19 142:20 143:11,11,19 144:18,19 145:7 147: 7,12 153:24 154:9 170:8,9,10 columns 136:21 141:13 142:1 147: 9 258:23 combination 212:8 combine 219:23 combined 178:13 190:10 211:11 come 161:18 226:9,13 258:12 282: 2 314:10,14,15 comes 175:11 188:25 268:22 comfortable 153:10 coming 220:10 comment 305:15 Commission's 157:20 158:2 207: 11 228:11 240:1 242:9 251:20 253: 16,17 254:5 255:9 283:13,15 commit 194:19 316:6 commitment 254:11 317:7 318:2, 4 committed 315:14,17,25 commodity 219:3 common 178:15 199:23 247:7 commonly 197:23 communication 175:10 268:10, 19 Communications 182:19 communities 270:10 community 270:11 271:3 companies 157:8 174:14 203:1 212:10 238:10 249:10 265:18 286: 11 292:7 company 161:6 164:18 178:1,2 179:19 211:6,12 214:21 218:17 220:11 225:13,16,18 230:17 231: 10 235:15,19,22,25 238:2 240:16 247:12 248:22 251:25 252:15,17, 19 254:25 268:2 287:20 320:20 company's 161:9 183:17 238:8 247:10 254:10 comparable 246:1</p>	<p>compare 237:16 Compared 154:4 comparing 269:13 compelled 186:11,19 187:23 compensatory 302:8,12 compete 170:24 266:9 307:19 308: 2 324:2 competing 154:23 177:4 190:17 competition 130:23,24 148:10 150:23 177:1 206:17 207:2,8,10, 13,15,18 210:3 213:20 214:2 219: 9,12 225:13 227:8 239:9 240:13 247:1 254:24 265:22 272:10,18 286:8 competitive 141:2,8 162:19 163:5, 6,14 164:17 174:14 175:24 176:21 177:17 178:20 186:10 187:12 188: 7 201:18 214:4,10,16,23 215:4 219:19,25 220:18 223:25 224:10 225:8,12,18 228:18,25 240:16,24 246:12,24 247:7,10,12,22 251:5,11, 15,25 252:16,18 253:9,14,25 255:1 265:9,18 267:10,22 269:1 270:9, 19 271:2,15 272:16 308:18,24 309: 4,9,12,21,21 314:10,15,16,20,22 315:3 328:6 competitor 157:3 225:17,20 315: 1 competitor's 156:4 306:6,25 competitors 131:2 156:1,6,11,14, 24 157:6,13 164:14 170:22 175:8 176:5,6 177:18 186:8,10,15,19 187:6 188:13 189:3,25 205:16 222: 4 225:5 247:3 255:4 266:25 267:5 292:24,25 293:2 307:5,7,21 308:4 competitors' 185:21 190:11,23 complete 167:9 280:23 296:18 completely 141:4,5,8 143:1 152: 21 complex 214:5 296:16 compliance 263:1 complicated 164:3 complimentary 268:13 comply 301:13 319:1,21,24 component 230:22 262:18 composite 125:8,12 275:4 comprehensive 164:8 compute 275:16 computer 268:18,20 conceivable 136:2 conceivably 156:23 162:15 concentration 271:2 concept 217:10 221:5,12 223:25 267:25 268:3 271:4 concern 240:2 268:12 310:14 concerned 145:23 173:20 191:6 253:13,24 254:18 316:14 conclude 143:18 154:10 190:9 235:9 concluded 222:23 278:20 conclusion 155:21 160:15 216:19 223:7 241:2 290:7 conclusions 135:10 concur 236:11 Concurrent 206:20 concurrently 207:3 concur 236:18 condition 137:1,2 183:20 219:25 236:2 conditions 157:14 217:18,20 218: 19,24 240:24</p>	<p>conduct 131:11 151:15 173:12 226:22 conducted 159:2 160:5,12 conference 134:9 conferring 283:22 confidential 134:1 146:15 147:6 153:23 191:7,9,25 192:1,25 194: 11,25 195:2,15,18 196:6 229:14 263:15 271:21,22,23 272:23 276: 17 277:2,4,5,9 282:9 325:1,8 configuration 198:20 confirm 257:15 confirmation 158:3 confirmed 257:17 277:20 confirms 250:2 confluence 220:11 confront 219:14 220:12 confronted 223:16 confronting 222:1 confused 159:25 confusing 281:12 confusion 194:13 199:14 256:12 335:21 conjunction 208:9 332:25 connect 197:22 connection 134:8 142:15,16 200: 3 262:24 273:4,24 320:17 321:1 336:3 connects 198:12 consequence 233:24 consequently 233:12 conservative 206:8 238:1 250:4 consider 205:23 235:24 240:12 242:18,22 243:2 251:14,24 253:2, 17 267:4 considerably 251:18 consideration 240:24 considered 199:17 222:14 250:2 290:14 303:1 considering 239:25 245:23 255:8 303:11 constant 161:11 162:7 173:20 205:12 215:7 218:14,18,21 constitute 189:12 consumer 214:13 217:19 219:6 consumers 161:21 168:15 170:16, 20 175:3 178:22 202:5 214:7 215: 5,8,11 217:1 219:2 261:12 268:6 278:8 287:8 295:18 313:14 314:6 315:7 316:2,12 318:12 consumers' 266:3 consumption 217:3 219:2,6,7 context 165:18 198:7 200:14 205: 23 253:18 254:11 255:10,18 309:2, 7 311:5 continual 217:4 continue 226:14 243:18 Continued 272:15 287:5 continues 183:20 217:1 continuing 137:17 contributing 154:14 control 152:8,11 controlling 153:2 206:10 convene 212:24 213:3 256:7 convenience 157:4 177:19,23 conversation 226:23 conversely 215:10 219:5 conversion 135:20 137:21,24 138: 3,4,14 139:4,8,9,13 140:15,22 141: 13 145:14 148:1 154:8 161:11,14, 25 162:10,14 168:12 169:18 170:3</p>	<p>180:3 256:14,18 266:16 286:12,14, 20 287:7 288:11 conversions 130:13 135:19 137:4 138:6 139:1 140:12 143:24 146:20 154:6 161:1 169:16 175:14 convert 225:1 converted 137:23 161:5 convinced 271:6 copy 132:24 158:21 165:10 192:7 copying 191:25 corner 279:3 corners 218:1 corrected 129:3 185:7 correcting 128:15 correction 128:17 142:10 158:2 183:25 208:12 299:2,7 corrections 127:21 129:7 182:22, 25 183:6,10,23 184:12,15 185:5 260:8 298:25 correctly 137:11 164:6 190:13,22, 25 205:4 270:13 286:10 correlated 132:6 correspond 232:19 corresponding 188:24 205:17 cost 200:18 234:11 248:17 252:3,6 295:11 302:12,24 306:17 307:8,9 308:9,18 309:5,13,16,20 311:12 312:8,10,21 314:12 322:18,21 323: 20 324:9 327:8,13 332:18 costing 315:11 costs 190:18,20 201:13 203:5,12 230:24 231:4 233:14 248:23 249:1 251:22,24 252:6,22 302:9 307:21 308:4 312:5 314:10,14 322:16,25 323:2,12,13,17 324:6,11,16 325:25 330:21 331:15,15 couldn't 132:3 139:3 Counsel 293:11 country 172:24 couple 167:23 203:8 238:16 244:6 291:24 293:10 335:5 course 147:20 191:24 224:18 239: 3 276:20 COURT 130:6 cover 190:17 233:14 234:11 252:2 333:15 covered 288:7 covers 195:9 251:22 create 225:8 251:8 created 141:12 266:2 credit 177:20 crediting 225:11 critical 146:24 critically 218:6 cross 124:13 129:22 130:1 148:21 154:23 155:8,12,22 157:1,11 167: 2,21 169:1,5 173:6 175:4,6 184:24 185:12 213:5,8 214:21 243:13 247: 9,20,22 250:19,24 251:8,12,21 252: 13 260:21,25 280:21 289:24 292:2, 4 299:22 300:1 333:21,23,24 cube 144:11 cumulative 249:21 263:18 cup 161:16 current 213:19,25 231:22 232:23, 25 267:14 278:15 302:22 303:20 309:17 322:1 324:25 325:7,23 334: 19 currently 231:18 232:12,16 265: 14 266:25 301:3 303:10 309:19 customarily 177:21</p>
---	--	--	--

customer 174:16 196:12 197:5,8,
15,18,21,25 198:2,4,6,9,10,13,24
199:5,24 200:1 211:9 226:21 231:
3 233:18 237:11,19 264:22 293:4
303:17,18,23 320:17 327:7,16 333:
12,16
customers 157:2,12 161:21 174:6
175:12 177:16,22 189:5,12 203:19
210:24 211:4 212:3 226:15 227:2
233:9 237:23 259:1 261:9 288:2,6,
11,12,14 293:5 297:13,16,17,19,20
315:16 316:20 320:6,14 321:9,17
326:10,23 327:3,11,15,20 328:1,11,
14,25 330:8 331:25 335:9
customers' 321:1 336:4

D

D1 300:13
D94-09065 206:24
data 125:4 126:2 131:11,17,18,19,
23 132:4,6,7,13,15,16,21 133:1,17
134:10,20,23 135:8,10,13 136:6,8
141:7 144:8 146:10 147:17,21,23
148:20 149:12,16,19 151:13 152:5,
18,21 153:3 168:8 171:24 172:5,6
179:17,19 193:12 227:1 256:13,17
257:18,20,21,23,24,25 258:4,5,6
259:3 280:23 286:3 327:24 331:13,
24,25
date 184:2 207:3 210:9 279:24
292:10,12,13 320:25
dated 173:1 280:9
day 147:3,3 170:23 295:12
days 282:19 287:10 288:2 292:20
dead 126:13,15
deal 173:6
dealing 187:12 241:14
decade 186:13
December 125:3,14 126:1,2 132:
22 141:7 154:2
decide 156:21,22 211:3
decided 170:5 301:3
decimal 188:22 189:2 190:5
decision 160:6 164:18 200:9 201:
20,21,24 206:17,20,20,24 207:7,9,
11,15,23 208:2,15,15 209:24 216:
17 228:6,9,11 238:21 254:5 315:
13 319:12,13 324:15,18
decisions 244:8
declare 325:9
decline 153:25 154:1,12
declined 168:15 286:7
decrease 161:10 187:5 189:21
204:10 218:15 244:16 251:7 277:
15
decreases 186:8,11,15 188:1 204:
10 205:17 218:3 277:16 278:11
295:19
deficiencies 133:12
define 148:22 174:9 214:24
defined 148:17 300:23
defines 232:9
definition 165:22 251:12 306:11,
20 307:4,11
degree 205:21 264:6 266:15 269:
12
delay 228:8
delivered 199:22
delivery 230:18
demanded 218:3
demands 130:11 161:25 294:18
demographics 132:9

demonstrate 209:21 316:22 324:
8
demonstrating 183:17
dependent 266:24
depending 212:18 218:23 221:6
237:5 322:3
depends 166:2 267:6 269:2 274:5
324:20
depict 145:21,22
depicted 239:15
derive 267:8
describe 183:3
design 164:3 206:21,25 241:15,25
262:15
designated 158:2
desk 291:3
despite 203:4 223:17
detail 173:8 201:2 284:20
Details 160:9 264:18 311:18 312:
22 313:10 320:16 335:18
determination 300:25
determine 135:15,23 152:9,12
153:7 155:7,8,10 166:15 179:1
243:22 286:22 319:6 330:25 331:
14,18 332:2
determined 256:16
determining 156:13 166:5 240:8,
9 315:9
detrimental 246:25
develop 254:18
developed 161:5 216:18 224:25
development 246:25 272:15
developments 218:25 219:5
develops 225:14
devised 320:23
Dial 149:8 264:20,21,21,24 265:17
266:1,12,15 268:24,25 286:11,14,
20 287:1,3,6,7,13,14,17,18,21,24
288:22
dialing 199:21 207:20 210:6,12
227:21,25 228:4,8 266:5 288:11,
19,22
dials 264:22
dictated 221:17
difference 229:23 230:11 231:8
262:19 274:9 306:17 309:5,13 312:
9,10 320:22 323:11,18 335:2 336:
2
differences 157:6 245:22 262:15
different 128:7 131:23 138:6 141:
8 143:18 152:3 165:23 173:25 175:
5 186:24 213:15 223:17,21 225:10
230:25 233:18 234:21 236:14 245:
12,13 253:19 285:1 286:21 287:3
293:10 304:7 307:8,9 317:15 322:
3 324:3,11 332:6
differential 232:17 234:1
differentiate 233:8
differentiating 170:2
differing 244:10
differs 247:3
difficult 152:4 275:20 324:1
dig 331:8
dime 292:8
DIRECT 127:9,16 129:16 153:3
162:21 182:7,18 184:10 186:23
215:19,21 224:13 259:25 260:6
286:8,23 298:16,23 323:19,20 325:
13
directed 227:24
directing 229:14

direction 132:14
directions 133:18,21 296:14
directly 151:5 198:13 210:25 211:
16 212:4 314:25 330:19 335:17
disagree 155:16 270:16 277:17,19,
22 278:12,13
discern 145:13
discount 189:10,11
discovery 158:17,20 285:11 330:
13 331:14
discuss 132:21 257:6 258:10
discussed 143:25 148:15 180:16,
22 214:20 219:25 277:8 280:6 295:
6 314:9 317:14 323:6 325:5
discussing 125:1 134:5 146:16
284:12 302:25 308:11 312:2
discussion 135:5 160:25 187:9
229:18 237:7 266:11
discussions 161:24
disposable 271:17,18
distance 125:4 130:12 147:3 148:
7 178:1 186:12 210:25 211:5 212:
3 219:10,11 230:21,23 231:11 265:
18 267:22,23 292:7,8 293:13,16,18
326:10
distinction 140:5 244:12 246:8
distinguish 138:6
distributed 158:11
distrust 161:18
divide 274:15 275:15 276:3
divorce 189:13
dock 230:18
docket 240:19 262:24 263:2 282:
24 283:1,17,19 284:13 286:6 287:
21,22,22
dockets 282:25
document 134:18 146:6,7 158:12,
16 159:14 182:25 191:23 193:8,15,
20 229:15 273:6,16,22 274:21 275:
6,7,16 277:2 278:24 284:8,17,22
290:3,23 323:8
documented 173:15 174:8
documents 133:25 134:14,23 167:
11 282:2,6,8
doing 141:16 153:1,10 169:23 220:
12 235:13 240:17 246:17 252:9,10,
24 254:14 256:22 271:4 324:2
dollar 183:18 211:4,13,20 246:1
320:13 321:10,16
dominant 187:22,22,25 188:25
219:15 264:8,19
Dominoes 198:7
done 126:19 142:2 186:23 188:2
206:2,11 219:22 241:13 244:19
250:7 253:1 269:18 274:13 289:4
295:8 316:7,22 319:15 321:24
door 226:7,9,13
down 138:23 140:5,6 155:20,24,25
190:1 214:12 226:11 276:19 314:
11,14,15
downgrading 253:14
downstream 307:19 308:2,7
downward 154:20 217:24 220:4
dramatic 269:14
dramatically 272:10
draw 160:16
dream 267:20
drifting 154:20
drive 307:21 308:4
driven 187:25
drives 154:7

driving 154:12
drop 187:7,21,22 217:2 285:14
dropped 285:12,18
dropping 187:8
drops 140:5
due 214:18 285:15,16 311:16
duly 127:7 182:4 260:4 298:13
dummies 141:12,18,21,21
dummy 136:14,17,19,22,23 137:3,
6,12,19 138:7 139:21,24 140:24
141:14 142:10 169:15,15,17 170:8
duration 125:6
during 124:13 130:24 131:20 147:
23 183:5 206:3 207:8 264:4,14

E

e.g. 272:9
each 131:11 138:2 141:12 149:13
151:13 169:18 213:22
earlier 152:16 160:25 161:24 169:
21 173:6 180:16 200:21 228:3 238:
17 239:3 250:3 256:12 258:2 280:
6 308:11 323:7 324:25 335:19 336:
12
early 180:7
earn 253:22
EAS 130:12 135:19 136:14,19 137:
3,4,19,21,24 138:3,4,6,13 139:1,4,
8,13,21 140:12,14 141:12,12,13
142:5,10 143:24 146:20 152:9 154:
5 161:1,5,14 162:3,14 169:16,18,
24 170:3 175:13 180:3 270:11
easier 196:5 266:9 277:9
easily 143:9
easy 160:2
econometric 130:18
econometricians 132:12
economics 136:23 152:22
economic 130:21 131:1 142:25
200:17 201:13 203:5,12 233:4 270:
10 271:1 307:3 312:21 324:1
economics 307:15
economist 246:14 278:19
economist's 280:17 306:11
economists 270:25
education 271:2
effect 138:2,13,15 151:25 156:12
170:6 189:20 205:21 211:23 212:5,
6 217:21 220:17 224:8,25 225:9
226:4 239:11 240:8,9 246:23 253:
1,19 259:2 261:17,20 262:11 270:
20 273:24 285:7 286:16 288:17,18,
24 304:15 314:20 324:8
effected 188:25
effective 207:3 254:25 275:24
326:9 327:8 332:18
effectively 225:11 240:16,24 247:
8 309:15 311:3,25 316:18 326:14
effects 132:15 144:21 149:14 151:
9,16,18,23 154:24,25 155:8,12,15
157:1,11 159:7 164:7 174:16 183:
17 189:8 218:10 219:23 239:7,8,9,
19,22 240:2,6,6 243:22 252:24
253:2,3,8,18,25 254:5,21 255:15,
17,19 325:18
effort 135:13 136:5 137:6 144:7
145:25
efforts 208:13 223:18
eight 273:7
either 144:10 207:23 210:18 211:
9 218:23 223:9 235:18 259:6 261:
10 269:11 275:15 295:18 333:12

<p>336:15 elaborate 331:6 elasticities 214:20 222:18 223:1 295:6 elect 211:4,7 elected 288:12,14 electing 310:17 element 300:22 elements 300:21,24 301:2 302:10, 25 304:4,6 315:12 elicit 173:19 eliciting 142:2 eliminate 270:17 312:9 327:2 eliminated 306:14 eliminates 306:6,25 309:20 elsewhere 176:25 321:24 employ 268:6 employs 250:23 enactment 221:19,20 encourage 212:3 encouraging 247:9 end 134:5 136:14 155:5 188:3 199: 14 222:21 223:13 236:24 237:17, 18,19 ends 138:22 233:19 engaged 230:4 239:14,19,24 289: 7 engagement 141:1,4 enough 287:12 327:8,12 ensure 252:2 entered 131:3 entice 293:5 entire 141:1 149:12 202:4 203:18, 21 243:7 291:2 313:13 314:5 315: 6,18 316:1,11 entirely 152:3 333:6 entirety 291:4 entitled 134:18 147:7 159:7 entry 255:1 environment 141:8 272:9 envision 226:5,15 EQA 136:17 137:6,12 139:24 140: 18,24 170:8 equal 130:13 140:22 143:25 145: 14 146:20 148:12 150:13 152:10 154:7 161:25 162:10,14 168:12 175:14 180:3 204:3,8,15 214:12 218:4,6,14 219:1 220:17 221:1 226:1 239:7 326:6 equals 263:22 equate 273:8 equation 138:9,10 equivalent 300:6,23 era 154:18 155:19 173:2 erosion 265:12 error 299:5,8 especially 128:1,2 131:20 essence 161:9 essential 305:6 306:6,24 307:6 309:15 310:1 essentially 133:20 174:24 206:5 establish 151:22 152:5 162:18 188:16 243:15 295:25 300:20 301: 5,23 329:15 established 181:12 186:21 198:3 201:17 300:8,20 302:6,8,13,24 304:18 313:8 329:12,21 establishes 160:11 304:9 establishing 240:21 241:21 303:2 335:17 establishment 137:13</p>	<p>estimate 141:23 220:10 estimated 138:9 143:5 160:20 172:11 estimates 172:22 276:21 297:5 estimating 172:14 et 172:22 evaluating 291:12 321:23 even 154:5,18 155:3 157:11 160: 12 170:24 174:18 190:1,2 199:24 203:17 216:24 227:7 233:11 247: 16 266:13 270:12 271:11 277:23 278:4,6 290:14 294:14 325:14 333: 3 evening 183:4 event 137:13 138:18 140:18,18 142:20 154:7 162:3 169:18,25 170: 1,15 176:10 180:2 219:12 221:17, 23 234:1 292:11 319:17 events 130:10 131:9,14,21 135:24 141:20 143:24 169:24 223:17 255: 21 everybody 277:3,10 everyone 141:3 191:10 293:20 everything 174:7 277:8 evidence 176:14 231:25 322:20 exact 188:11 313:25 317:13 320: 21,25 321:3 322:25 exactly 132:24 178:6 196:25 205: 25 206:11,11 251:23 255:16 264: 18 268:21 271:16 281:25 316:6,22 317:16 336:5 examination 124:13,22 127:9 129:22 130:1 133:7 148:22,24 167: 21 169:5 171:18 173:6 179:11 182: 7 185:12 213:5,8 214:21 227:17 229:9 234:18 244:4 250:17 260:6, 25 280:21 289:14,24 292:4 294:3 296:9 298:16 300:1 334:2 examine 150:4 167:3 examined 127:7 182:5 260:4 298: 14 examiner 129:24 example 152:10 178:12 188:17 189:9 218:25 219:9,10,24 220:7 222:21 225:1 226:6 230:7 232:19 234:6 236:4,13 251:25 252:18 253: 10 267:19 304:1 307:13 320:20 322:18,23,24 323:2,23,25 324:7 325:17,23 335:23 examples 237:14 267:16,18 306: 13,15 311:8,22,23,24 312:1 322:9, 11,15 326:13 exceed 305:13 exceeded 183:19 188:3,4 except 135:12 320:17 exception 199:4 excess 276:15,22 exchange 198:25 235:10 303:16, 16 exchanges 236:14,15,17,21 238: 11 exclude 175:16 236:17 239:8 252: 5,6 excluded 175:20 249:14 Excuse 125:23 128:10,23 133:11 179:22 191:4 194:24 196:23 204: 19 212:15 236:7 238:6 263:6,24 272:22 279:23 287:16,21 317:1 328:17 excused 126:4 181:17 256:2 298:1 336:11</p>	<p>exercise 220:6 exercising 287:9 Exhibit 126:12 127:15,18,25 135: 9 168:5 169:3 171:24 172:10 185: 6 192:14,19 193:8 194:5 201:25 204:17,24 209:12 229:12 232:10 248:9,10,12 256:13,17 258:1,22 263:15,17 270:4 271:21,22 273:12 276:18 277:9,24 278:25 279:18,25 280:5,12,16 285:20 286:2 294:7 297:3 322:12 Exhibits 127:22 129:14,20 184:10, 13 185:1 194:18 259:24,25,25 260: 9,12,15 298:23 299:1 exist 157:14 334:20 existed 209:11 existing 156:8 310:21,25 exists 268:5,7 306:5,23 exit 323:23 exited 202:16,25 203:1 expanding 141:25 expands 272:10 expect 168:13 187:14 188:6 204:3 214:19 215:8,11 218:15 219:4,8, 18 226:19,23 266:17,20 288:10 expectation 162:8 expectations 266:23 expected 263:12 280:18 expenditures 178:7 expense 327:17 328:5 experience 187:2,19 189:22 215: 12 experienced 144:24 202:18 219:7 225:13 276:22 experiences 247:5 expert 289:7 explain 133:1,13 136:19,22 138: 20 139:23 142:23 145:20,21 146:1, 12,19 148:20 151:2 152:25 177:24 217:11 229:19 270:22 282:15 301: 17 explained 140:16 152:16 168:15 309:2 explaining 146:25 explanations 132:2 explicit 208:19 explore 150:2 197:14 expressedly 208:15 246:7 247:15 249:14 251:14 252:4 extended 189:23 extent 150:5 177:8 260:12 extrapolation 272:11 extremely 152:4 extrinsic 255:20</p>	<p>271:5,6,13 281:5,13,13 factors 131:4 140:17 148:6 150:1 151:10,12 152:12,21,24 153:3,5 154:15 155:9 161:24 163:5,6,18, 23 174:12 175:17 218:21 220:11 240:1,13 263:18 267:10 269:10,20 270:1,5,8,10,16,19 271:1,15,19,19 293:12 facts 161:15 238:25 239:2 factual 169:10 failed 153:8 failing 247:13 fair 142:21 147:13 150:4,19,25 152:10,13,14 153:16 171:1 176:15 244:11 295:22 319:6 fairly 138:17 fall 187:14 295:7 false 225:5 familiar 181:7,9 200:6,20 201:2 216:20 248:9 264:21 267:25 268:3, 4 280:13 290:16 294:6,9 303:12 313:3,18 320:16 322:11 324:18,23 334:23 335:1,4 fancy 133:16 far 139:23 178:24 179:3 254:17 265:19 308:8 335:3 fashion 141:10 165:20 FCC 215:24 216:5,6,15 296:22 300:23 303:10,12 FCC's 290:16 300:25 features 132:10,11 February 141:6 145:14 147:25 154:2,13 168:12 221:17 266:6 Federal 247:16 303:6 fee 212:9 320:10,18,23 321:1 336: 3 felt 138:14 267:2 few 177:1 179:9 189:15 289:22 305:17 fictional 173:24 fifty 211:4,13,20 figure 172:13 205:8 206:13 217: 22 218:20 220:8,13,16 221:2,5,10, 11,13 223:20 239:13,15 250:8 253: 7 254:15,17,19 263:8,25 275:23 276:4 322:21 figures 275:7 276:11 284:23 323: 17 330:16 file 129:3 filed 129:17 184:3 224:17 282:6 317:14 321:25 filing 263:1 final 230:1,2 231:8 financial 220:7 311:9,15 find 131:15 132:17 148:17 153:12 155:3 189:25 209:10 217:15 263: 17 268:17 279:9,24 284:21,23 294: 15,18 317:12 319:12,13 331:9 findings 135:6 fine 130:7,7 179:5 180:13 213:2 272:4 284:14 293:24 296:19 324: 23 333:7 finish 244:18 329:16 finished 236:7 Firestone 230:9 firm 156:8 157:7 177:5 195:9,10 205:8,11,22,23 206:6,10 214:8,9, 22,24,25 215:1,3,6,7,9,10,11,12 219:7 222:9,13 225:2 263:25 firms 131:2 141:2 177:2,2,3,6,9 205:12,20 214:11 215:2,9,12</p>
F			
<p>face 323:23 faced 244:13,13 facilities 333:12 fact 131:13 138:6 139:5,5 140:2 142:8 144:14 151:22 155:8,11 160: 7,11,15 162:12 164:6,18 169:11,20 171:25 172:4 178:25 179:19 180:1 186:11 188:1 189:3 190:19 205:25 206:3 216:10 222:12 228:2,6,24 232:1 245:1 247:11,14 250:9 253: 6 257:16,17 269:4 270:3,4 282:13 285:8 286:25 287:7 290:19 328:17 332:21 factor 154:12 180:16,18 181:4 208:8,24 224:20 225:8 228:12 238: 18 261:5 262:22,23 267:23 269:1</p>	<p>face 323:23 faced 244:13,13 facilities 333:12 fact 131:13 138:6 139:5,5 140:2 142:8 144:14 151:22 155:8,11 160: 7,11,15 162:12 164:6,18 169:11,20 171:25 172:4 178:25 179:19 180:1 186:11 188:1 189:3 190:19 205:25 206:3 216:10 222:12 228:2,6,24 232:1 245:1 247:11,14 250:9 253: 6 257:16,17 269:4 270:3,4 282:13 285:8 286:25 287:7 290:19 328:17 332:21 factor 154:12 180:16,18 181:4 208:8,24 224:20 225:8 228:12 238: 18 261:5 262:22,23 267:23 269:1</p>	<p>face 323:23 faced 244:13,13 facilities 333:12 fact 131:13 138:6 139:5,5 140:2 142:8 144:14 151:22 155:8,11 160: 7,11,15 162:12 164:6,18 169:11,20 171:25 172:4 178:25 179:19 180:1 186:11 188:1 189:3 190:19 205:25 206:3 216:10 222:12 228:2,6,24 232:1 245:1 247:11,14 250:9 253: 6 257:16,17 269:4 270:3,4 282:13 285:8 286:25 287:7 290:19 328:17 332:21 factor 154:12 180:16,18 181:4 208:8,24 224:20 225:8 228:12 238: 18 261:5 262:22,23 267:23 269:1</p>	<p>face 323:23 faced 244:13,13 facilities 333:12 fact 131:13 138:6 139:5,5 140:2 142:8 144:14 151:22 155:8,11 160: 7,11,15 162:12 164:6,18 169:11,20 171:25 172:4 178:25 179:19 180:1 186:11 188:1 189:3 190:19 205:25 206:3 216:10 222:12 228:2,6,24 232:1 245:1 247:11,14 250:9 253: 6 257:16,17 269:4 270:3,4 282:13 285:8 286:25 287:7 290:19 328:17 332:21 factor 154:12 180:16,18 181:4 208:8,24 224:20 225:8 228:12 238: 18 261:5 262:22,23 267:23 269:1</p>

first 127:6 137:14 140:14,23 144:6,15 145:6,7 148:10 151:6 153:23 158:16 159:14 160:6 168:6 169:25 182:4 198:3 229:17 232:24 233:5,16,23 234:22 236:21 260:3 263:5,8 279:17 286:11 289:15 292:7 298:13 301:20 331:6
firsthand 161:7
fist 253:12
fitted 138:20,22
five 156:6 171:13 292:23
flat 293:16,23 320:9,23 327:25 328:2 329:1 335:7
flexibility 304:18
floor 251:18 252:22 304:8,10,12,15,17,20 305:2,7,10,12 309:18 310:2
floors 201:16 300:8,10 308:15 313:7
flow 316:7,11 318:11 334:6
flyer 149:22 177:20
fold 293:6
folks 253:20,21,24 254:3
follow 126:3 169:1 170:18 179:8 181:16 222:4 234:15 243:12 244:1 250:13,14 255:23 296:4 336:10
followed 169:19 170:11
following 130:12 137:15 138:4,25 139:4,6 144:24 145:11 156:16 160:5 177:9 288:11
follows 127:7 182:5 192:23 248:17 260:4 298:14
footnote 125:3,14 157:19 158:25 160:7,9 248:15,16
force 187:1
forced 212:9
forces 155:21 173:25 187:1
forecast 164:9 218:9 220:7 254:4,8,9,21 255:14,17,18
forecasting 239:19,22,25 240:2 252:24 255:12 271:7
forecasts 254:13
foresee 319:22
forgotten 320:25
form 155:15 165:10 186:23 189:9,16 202:5 257:18 268:9 313:15 314:6 315:7 316:2,12 318:12
forms 177:19 178:7
formula 327:24
forth 172:11 190:10 243:1,21 273:22,23 284:19
fortunes 131:1
found 142:5 172:18 201:16 216:7 223:22 313:7
foundation 231:24 232:3 280:15
founded 179:2
four 133:10,14,15,20 156:6 230:9 310:3
four-page 182:25
fourth 178:3 263:18 266:14 273:21
frame 125:10,12 160:12 264:15
frames 125:8
frameworks 206:22
frankly 265:4
free 267:21 287:10 293:13,18
freedom 266:4
frequent 149:22 177:20 189:9
frequently 143:8
Friday 126:5
fringe 177:3

front 127:15 158:18 184:6 193:8 248:3 294:8,10 297:4 298:20
frustrating 255:1
full 125:15 127:12 247:13 316:15 318:11
full-blown 148:19
fully 132:3,5 302:8,12
function 212:11 214:14 217:24 218:2,5 219:14 310:2
functional 300:23
functions 305:7,8
fundamental 130:23
fundamentally 157:5
fundamentals 155:14
further 158:1 159:6 168:23 179:5 181:15 212:12,16 228:8 234:13 243:25 250:12 255:22 262:13 289:10 291:19 297:24,25 333:18 336:9
future 272:8 276:21

G

gain 141:16
gained 267:3
gains 128:20
game 175:14
gather 149:16,19
gauge 142:19
gave 211:15
General 206:4 270:7,10 271:1 277:21 297:12 303:20 311:5
generally 173:9 186:9 187:18,25 188:24 199:16 214:13 239:25 278:10 304:17,24 314:14 315:10 326:22 328:10,22
generates 327:7
generic 328:15
genesis 183:3
gets 186:5 226:11
getting 138:11 198:4,7 241:16 262:9 275:3,5 294:12
give 140:9 182:16 262:19 267:16 274:11 282:3 311:8,21,24 312:1 331:5
given 138:14 151:17 152:7 162:13 164:14 168:11 172:7 174:18 204:5,13 208:20 239:16,17 272:15 282:1
glad 160:2
gladly 166:2
goal 302:21
got 160:13 177:25 230:1 318:16 320:17 331:4
gotten 315:21 318:8
graph 133:16,17,20 140:8,11,13 219:22
graphs 131:23 144:16 217:14
Great 195:24
greater 142:21 143:12 204:5 226:4
greatly 155:5
gross 190:12,15,23 191:1,2,17 229:18,20 230:12 231:22 232:14,23,25 234:21 235:5,6,7,8 250:9 323:3,7,11 325:1,7
ground 267:3
grounds 319:4
group 316:17
grow 217:1
grown 154:24 168:14
growth 132:8 217:4 254:24
GTE 223:2,5,5,9 238:18 281:11,12 283:6 287:24 288:7,19
GTE's 281:6 288:11

guess 159:21,25 196:5 204:11,19,21 237:4 274:24 276:17 292:12 300:9 304:1,24 305:14 307:2 309:11,23 310:9,18 311:7 312:1 316:24 317:12,22 319:22 323:15 324:20 325:17 328:4,24 329:5 333:5 336:4
guideline 303:1
guidelines 302:18

H

hand 126:25 137:20 139:16 225:7 253:12 259:16 285:22 298:3
handed 134:13 146:6 165:9 182:24 248:8 273:11 278:24 284:22 286:1
handing 134:1
handle 275:10 278:9 282:22 322:5
hang 226:9,12
happen 139:8 161:17 162:3 163:7 169:24 170:3 177:7 187:17 214:15 231:11 248:2
happened 144:22 145:10 148:20 150:14 181:9 220:20,20
happening 130:22 220:2 265:15 308:13 312:4 319:22
happens 138:7,14,16 139:9 143:8 170:2 175:7 177:22 214:3,22 215:2
happy 273:19 277:7
hard 170:4 213:1 226:2 334:10
hate 257:2
head 130:5
heard 226:25 227:6 258:2 293:13 312:15,23 318:20,21
hearing 226:25 258:6 312:12 334:11
help 301:18 335:21
helpful 331:5
helps 267:20 280:9 296:18
high 166:1 197:18 226:8 320:19
higher 157:3 204:2,2,3,6,11 212:10 215:13 223:8 233:17 235:10 251:18 263:19 265:3,3 305:12 324:12,13
highlight 192:3
highly 246:25 278:21
history 130:11 311:3
hold 167:1 205:12 212:13 215:7
holding 125:8,12,18,19 218:14 220:16 225:24,25 226:5,20 227:1,8 261:15
holidays 270:12
home 178:14
honest 282:7
Honor 129:13,25 133:23,25 134:13 146:3,5 158:9,11 163:1,22 164:19,21,24 165:6,9 166:25 167:5,14,16 171:16 172:16 176:2,8 178:17,23 180:12 181:18,20 182:12,24 192:13,21 194:4 195:5 201:6 202:1 204:19 224:16 227:15 234:16 238:6 241:11 243:3 244:2,17 248:6 249:7 250:12 257:2 277:1 279:17,23 280:17 282:10 285:24 291:22 298:10 299:17 301:8 305:14 313:16 317:1,20 318:14 319:3 336:9
hope 149:19 282:25
Hopfenbeck 167:19,22 168:23 179:8 191:4,6 192:5,10,21 193:2,6 194:7,10,16,20 195:15,20,25 229:4,

7,10 232:4,5 234:13 245:4 257:14 289:19,20 325:3 336:12,14
host 295:6
hours 295:12
household 132:8,9 279:9 294:18
households 172:23
however 136:5 154:11 167:8 180:1 194:10 195:11 207:8 224:19 229:4 241:14 265:9 269:15 271:4 285:15 290:13
hunch 140:14
hundred 278:3,4 287:10
hypothetical 153:4 176:9,14,15,15 179:2 322:22 325:21,22 326:1

I

idea 217:10
identification 273:14 279:1
identified 180:3 290:4
identify 131:22 145:24 146:2 158:15 173:11 180:2
ignorant 157:5
II 134:19
IIEC 311:3,17
illustrative 322:24
impact 135:23 137:17 142:5 144:4 145:13 148:24 150:13 152:9,10,12 161:1,6 162:9,14 163:5,23 173:12 175:17,22 214:25 261:5 272:17 321:2
impacted 162:1
impacting 161:25
impacts 131:14 142:13 173:22 174:22 183:15 240:13 258:8
impediments 266:12
implement 170:15 205:17 227:25
implementation 170:18,19 171:2 206:21 228:8
implemented 161:14 164:11 210:10 221:16 287:24 288:19 321:7 335:6
implementing 208:2 263:12 285:12,19 320:25
implements 316:17
implicated 299:9
implications 332:6
implicit 138:13
implied 332:9
imply 139:1 323:16 336:4
important 138:12 139:24 189:2 218:6 233:23 234:22,25 235:2 319:12,13
imposed 235:24 318:24,24 335:7
impossible 141:23
imputation 210:23 250:25 251:13,14,17 252:12,21 308:11 309:24 312:5
imputed 248:17
imputing 299:4 309:14
in-state 320:17 321:1
inappropriate 225:10,15
Inc 182:20,20
Inc's 193:11
incentive 189:9
incentives 177:14 189:5,7 288:5
inclement 270:12
include 149:13 209:12 236:20 248:22 249:1,9 252:21 274:6,7 308:14 309:17 310:1
included 149:10 172:9 211:19 217:15 238:2 249:15 250:5 257:18 305:7

<p>includes 275:22 322:9 including 206:2,25 212:8 270:9 275:23 320:2,7 323:13 324:21 Inclusion 272:16 inclusive 175:19 income 132:8 271:17,18 incomplete 167:7 incorporate 169:11 251:16 incorrect 190:15 196:20 increase 203:25 215:3 218:16 219: 2 220:5 225:23,24,25 226:20 240: 5 248:23 251:9 261:22 increased 216:10 286:8 increases 173:19 203:25 218:4 295:19 increasing 213:21 214:2 217:3 261:22 increasingly 178:15 incumbent 206:3 219:15 225:6 233:10 238:13 246:24 247:1,4 incur 190:20 307:8 322:15 324:6, 10 incurred 200:3 327:18 indeed 153:8 161:13 189:24 201: 15 202:8 266:15 271:14 326:13 independent 235:19,22,25 238: 10,11,12 248:22 249:10 independently 221:15 indicate 148:6 152:1 159:6,22 330:16 indicated 179:1 249:11 250:1,3 290:8 329:7 334:21 indicates 158:16 194:14 232:22 271:12 291:9,11 indication 159:18 indicator 136:24 indifferent 225:19 226:16 individual 226:21 induce 288:5 inducement 177:19 inducements 149:21 189:20 industry 186:12 189:22 314:11,13, 15 325:19,20 ineffective 139:22 inelastic 204:17,24 277:24 278:21 279:10 290:9,12,14,15 294:19,22, 23,25 295:2,10,15,17,20,21 inelegantly 136:21 inexpensive 297:18 inference 143:20 influence 153:5 267:11 270:24 influences 152:17 information 124:14,16 142:2 161: 7 168:8 169:13 191:9 195:16,18 254:18,22 275:21 284:19 296:24 316:16 318:17 319:18 325:10 327: 17 329:14 330:13,25 331:17,23 332:1 informed 226:3 297:17 initial 138:25 139:4 153:15 156:8 initiated 175:8 initiates 156:15 ink 192:4 innocent 177:22 input 231:9 inputs 234:11 254:7 255:7 307:7 324:4 inquiry 282:25 283:2 inserts 185:8,9 inspired 321:11 instance 138:25 293:21</p>	<p>instances 196:16 326:18 instantaneous 139:13 170:20 171:2 instantly 187:17 instead 245:18 instrumental 287:20 insufficient 164:13 insulating 246:24 intend 167:8 201:25 283:2 316:4 intended 207:9 322:24 intent 282:23 316:5 320:18 323: 25 335:8,15,20,21 336:6 inter 149:2 178:13 216:13,14 interactions 141:2 intercept 138:8,19 139:20 140:21 141:18 170:6 interchangeably 281:11 interconnection 237:6 interest 157:20 270:10 271:3 interested 220:12 221:10,11 233: 20 253:9,21 interesting 222:25 223:6 Interestingly 287:12 interexchange 188:7 197:7,22 198:13 229:24 230:1,24 234:4 288: 5 293:9 303:15 interject 151:4 192:21 277:2 interLATA 178:9 187:20 216:10 217:7 266:3 296:25 international 290:21 291:13 296: 25 internet 175:11 178:2 211:8,10,17 220:19 255:19 267:25 268:14,23 269:23 interpose 176:2 305:15 interpret 202:15 interpretation 295:22 306:8 interrogatories 264:17 interrupt 331:4 interstate 160:21 187:20,24 265: 11 290:21 291:13 292:9,19 320:22 321:4 335:10,22,24 336:2,3,5 intervening 223:19 Intervenor 134:19 intra 178:13 intrastate 187:20 302:2 305:4 320:14,19,22 321:11,13,17 322:3 335:7,9,22,23 336:2,5 intrastate/intraLATA 272:10 introduce 191:9 201:25 280:20 299:18 introduced 210:13 265:17 266:5 310:16 introducing 189:19 280:15 introduction 141:5 186:24 210:3 219:9 227:20 investigated 144:21 256:16 investigation 206:22 involved 183:7 231:25 240:1 245: 25 315:12 335:17 involving 217:12 inward 199:16 IRD 160:6 irrelevant 221:4,12 235:15 irrespective 219:20 247:5 isn't 137:24 138:2 139:7 140:1 141:11 144:3,18 147:20 151:23 152:10 153:24 154:1 162:1 165:14 180:3 189:6 196:15 197:21 199:5 201:15 209:19 210:23 227:23 228: 16 229:1 234:24 235:14 248:21</p>	<p>290:19 309:14 320:12,21 326:17 isolate 218:10 239:6 262:11 271:5, 13 isolated 152:24 issue 162:24 163:16 166:11 175:7 203:23 228:17,20 253:13 271:24 272:2 277:20 283:25 306:1 312:7 335:3 issued 200:10 207:8,14,23 227:24 240:23 issues 126:18 306:2 311:13 item 132:4 293:11 items 131:11,16 132:15,19 149:13 151:14,14 153:18 itself 139:25 140:14 162:11 189: 10 201:21 212:11 241:4 274:21 303:22 IXC 236:13 237:16 297:13 303:17, 22 304:5 311:4,25 320:5 322:18, 25 323:22 324:1,6 326:14 332:19 333:10 IXC's 322:21 324:4 IXCs 148:11 178:20 196:15 266:9, 17,20 269:7 297:9 306:16 314:12 320:1 322:15 323:3 324:10 326:9, 17 IXCs' 324:16</p> <hr/> <p style="text-align: center;">J</p> <p>January 132:22 144:1,13 147:13, 14,18,18 207:10,18 256:17 257:8 258:24 job 253:16,17 254:10 255:13 Judge 127:1 181:21 259:17 298:4 judgment 226:3 July 144:2,14 159:19 169:12 256: 17 257:8 258:24 259:3 jumping 170:22 jurisdiction 254:24 255:4 314:25 jurisdictions 187:3</p> <hr/> <p style="text-align: center;">K</p> <p>keep 141:17 142:24 179:13 297:17, 19 keeping 213:17 kind 144:11 145:20 152:1,4 161: 20 164:9,14 203:8 220:13 247:19 255:7,11 268:18 302:18,20 309:7 311:5 335:16 kinds 161:17 168:18 177:21 227:6 255:20 knowledge 184:20 197:10 203:3, 16 299:15 known 136:24 143:12 210:10 212: 6 knows 329:8,15</p> <hr/> <p style="text-align: center;">L</p> <p>label 174:17 lack 227:20 231:24 land 268:15 language 205:3 242:12,18,20 Large 159:8 177:2 207:1 277:3 314:13 326:24 327:11,12 332:15 larger 175:9 Larry 192:10 last 160:8 178:25 213:19 216:10 217:7 231:14 234:20 243:5,7,19 245:2,5 248:20 259:20 279:2 294: 15 lasting 149:12 LATA 231:1 264:6 265:10 late 213:17,24</p>	<p>later 195:25 226:10 256:7 270:15 289:16 301:12 Law 127:1 133:11 181:21 195:9, 10 210:9 242:25 243:20 247:17,19 259:17 298:4 301:4 304:9,13,20 306:1 334:23 335:2,2,4 lawyer 195:9 305:17 lay 232:3 305:20 lays 242:16,21 280:15 lead 129:23 235:9 260:22 289:13 leader 186:22 leading 156:8 177:5 181:10 244: 23 245:15,17 335:11 leads 156:20 241:1 302:10 leakages 168:19 least 132:18 145:21 152:6,23 155: 17 188:8 215:13 219:6 238:18 264: 25 278:19 292:20 leave 152:20 177:4 191:12 leaves 156:23 leaving 177:4 258:15 283:23,24 LEC 216:17 233:10 LECs 206:4 led 135:10 Lee 181:24 182:3 left 152:25 196:2,4 218:1,23 219:8, 13,24 220:3 234:12 legal 301:10 legislature 126:19 length 125:4 less 141:22 143:17 147:23 187:11 190:2,7 204:14 218:17 235:5,7 246:6 251:7 264:5 265:5 273:5 290:25 lesser 189:4 Lester 158:7 letter 282:14 level 143:20 174:18 186:21 214:7, 18,19,19 226:12 261:25 266:12,24 levels 187:21 231:3 277:16 280:19 293:1 Levy 290:4,5,8 light 131:21 267:4 likely 155:3,15 156:2 186:14 189: 25 limit 304:21 limited 142:11 146:22 163:19 220: 15,24 240:2 296:13 limits 302:18 line 127:25 128:1,4,5,6,8,13,19 130:9 132:22,25 133:9 138:20,22 140:7 148:5,11 149:1,7,22,25 150: 18,24,25 153:17 154:18 184:4 198: 9 215:23 224:20 232:10 233:20 234:20 241:18 243:7 257:6 258:10 267:9 268:15 271:18 287:8 295:12 299:3 300:16 313:21 321:4 335:24 336:7 lines 132:7 150:23 151:18 184:1 197:1 199:23 204:23 270:5,16 326: 11 lip 161:16 list 130:12 143:23 144:1 148:5,10 149:14,25 153:14,17 269:22 listed 131:5 151:12 little 159:25 169:10 185:16,24 213: 1 226:17 270:22 309:11 310:15 316:14 331:8 live 148:25 302:19 local 137:23,25 139:6 178:1 196: 12 197:5,9,10,12,16 198:1,4,9,22,</p>
--	--	---	--

24,25 199:3,3,23 211:6,11,19 212:9 235:10 237:19 238:11 270:10 271:3 293:23 303:16 304:1 315:11 333:11
logical 155:21
long 125:4 130:11 148:7 170:4 177:25 186:12 210:25 211:5 212:3 219:10,11 227:6 230:21,23 231:11 265:18 267:22,23 292:7,8 293:13,16,18 305:13 307:25 326:10
longer 187:24 226:17 261:10 264:3
look 130:4 135:8 136:5 139:24 144:7,13,14,16,19 145:6,19 147:12,17 150:9 153:23 154:9 160:7 164:13 168:7 189:8 206:10 218:4 254:14,16 270:24 273:16 282:2 288:20 290:24 295:11 330:12,13
looked 131:17,18,19,25 132:6,10,10 135:15 140:13 143:10 144:22 145:9 146:20 150:5,10,12 164:5 166:14 174:2 320:21 327:16 330:14
looking 135:18 139:20,21 140:21 145:18 147:20 150:22 164:15 170:5 185:25 209:9 222:23 223:24 231:16 232:9 234:23 244:15 258:4 266:13 275:22 276:1 326:14 328:5 332:5
looks 144:8 204:2
loose 148:16 165:20
lose 162:12,15 253:23 287:5
loses 225:16
losing 163:8 253:12 267:3
loss 140:1,4
losses 162:19 163:12,14 164:17 219:20 220:18 225:8,12 228:18 229:1 240:17 246:13,24 247:5,12 251:5,11,15,25 252:16,18 253:10,14 254:1
lost 139:9 217:6 283:25
lot 147:19 164:3 173:8 214:5 230:19 265:15 275:20 277:18 282:24 317:15 328:17 331:7
low 165:25 204:18,20,25 222:20 223:13 277:24 278:1,4 295:14
lower 156:2,24 181:13 186:21 202:6 204:7,10,10,14 205:8 208:7,16,17 214:20 216:25 218:1 244:15 246:6 250:8 261:9 277:16 278:11 314:6,16 315:7 316:13 324:12,13 335:23
lowered 158:2 209:19 215:9
lowering 175:25 177:12,13 261:6
lowers 185:19,20 215:7
lunch 212:22,23 222:25

M

made 126:11 158:25 164:18 166:16 183:6,9,14,21 184:16 185:18 200:24 201:8 206:16 215:1 219:12 228:18,25 247:6,12 252:15 254:11 312:19 313:5,17,23 318:1,3,23 319:11 322:17
magnitude 190:4 246:1
mail 128:25
major 206:25
majority 327:9,10
Mall 184:3
manage 240:14
manifest 174:6
MANIFOLD 125:23,25 128:8

258:9,12 277:1,11 279:23 280:3 282:10,18,21 291:22,24 292:2,5 297:7 333:24
Manifold's 280:6
manner 186:20 225:21 247:2
manufacturer 230:7,8 234:7
many 141:18 157:2 161:16 172:24 173:3 231:12 269:10,20 270:5,8,23 282:8 288:12,14 310:25
margin 190:12,15,23 191:1,3,17 226:15 229:18,20 230:3,12 231:6,12,17,22 232:9,11,22,23 233:1 234:21 235:4,5,6,7,8 250:9 293:22 306:7,14,16,25 322:10 323:2,3,8,11,23 325:1,7,15,16
margins 185:22 307:6
mark 156:19 158:12 165:11 192:2
marked 130:10 135:9 140:15 141:7 145:4 146:7 169:19 182:11 184:7 185:5,6 193:8 248:9 273:12 277:2,4 278:25 279:1,2
marker 192:2
marketplace 131:3 161:17 170:21 187:1 292:25
markets 176:25 177:1 187:20,20
Massachusetts 178:14
match 156:9,14,15,22 186:8,11,15 187:4 188:11 336:5
matches 335:10
materially 227:9
math 133:12
matter 143:1 166:17 219:13 233:10,13 234:23,23 236:13 249:23
mattered 156:25
matters 233:12
MCI 200:16 202:3
McIntyre 166:21 167:3 326:21 332:11
McIntyre's 306:10 333:5,7
mean 132:7,7,8 133:14 164:15 165:17,24 166:2 168:6 170:16 174:9,13,13 175:9,13 177:9,24 188:18 190:3 202:15 204:5 216:24 232:14 234:1 237:19 238:8 258:2 278:7 287:21 290:10 293:16,20 302:25 305:19,21 307:1 308:6 311:8 312:8,24 313:19 314:23 315:15 316:15 319:21,21 328:14 334:17
means 130:21 154:23 173:23 249:5 257:7 263:11 282:1,4 294:24
meant 128:20 191:1 229:19 235:6 238:9 257:12 295:1
measure 234:1
measured 331:18
meet 169:8,9
memory 201:19
mention 149:22
mentioned 135:3 150:18,23 269:10 312:23
merely 305:15
message 225:23,25 226:4
messages 261:14
methodology 242:10,17,22 243:1,21 320:21
mid-90's 180:8
middle 128:1 226:6 279:8,12
midway 128:20
might 132:6,11 133:23 142:7 146:3 151:4 156:8 157:2,9,11,12 158:9 164:20,23 165:7 167:13 171:10 174:19 176:11 177:3 185:16 189:

25 190:6 195:5 197:7 201:22 204:17,24 212:18 214:6 220:10 224:16,24 226:12,23 233:20 236:2,5,16 240:25 248:5 249:7 258:7 264:23 266:11,12 267:4,22 268:10,12,16 270:24 272:11 274:12 277:23 278:3 288:4,7 301:18 304:5 315:8 319:14 322:2,6,7 335:2
migrate 157:9
Mike 169:7 213:10
miles 149:22 177:20
million 200:14 262:1,3,6,8,10,16,18,19 273:7 275:25
mind 141:17 176:18 213:17 291:6 302:21
mine 164:19
minimum 252:14 304:22,23 329:23
minus 133:19 274:9,12
minute 147:1,1 154:19 171:11 178:16 185:20,21 186:24 187:6 189:17 191:19,19 209:2 226:8 231:19 234:2 261:16 278:6,16,22 279:10 290:20,21 292:8,19,20 294:19 297:9 320:2,7,10 322:16 323:4,24 327:23,24 328:11,16,22 329:7 331:25 335:9
minutes 125:5,6,14,20 131:17 136:9,10 137:23,24,25,25 139:6,6,9,10 140:1 142:12 144:23 145:10,19 146:14 147:4,8,10,11,14 161:5,9,11 168:9,14 189:15 212:19 226:10 258:23,25 261:14,17 264:20 278:3,5,7 293:22,23 327:19 329:1 331:19 332:20,21
mischaracterizes 163:15 241:12 246:19 329:20
miss 161:22
missed 280:3
missing 132:15,18
model 131:8 132:17 135:13,15 136:3,4 137:7 138:7 139:22 140:10 141:16,24 142:9,19 144:4 145:17,25 148:19 150:7,15,16,21 152:11,15,16 224:24
modeled 153:6
modeler 152:20
modeling 138:18 139:14 140:7 145:12 147:21
models 151:25
modifications 183:21
modified 183:8
modify 223:16,18
moment 142:4 153:5 164:20,23 167:13 180:12,14 182:13,16 257:1 336:8
money 253:12,23
monopoly 206:5
month 137:14,15,20 138:14 139:2,4,6 140:23 147:15,15 170:1,3 187:18 211:4,13,20 278:4,5 293:21 320:13 321:10 332:16,23
monthly 178:6 320:13,23 321:16
months 137:3,5 138:4,24 140:3,25 147:13 149:12 150:9 151:13 169:24 288:18
morning 124:24,25 126:23,24 130:3 171:21,22 179:14 182:9,10 183:22 185:14,15 214:21 222:22 226:25 229:22 336:16,17
most 173:3 199:3 206:8 233:3 296:

18 302:24 312:2,12
motion 167:11
motives 156:4
MOU 131:18,24 139:17 147:7,9,9,11 150:10,14 152:19 261:23
MOUs 132:18 139:13,23 153:24
move 130:6 157:13 166:25 184:23 194:4 203:23 210:23 213:24 214:11 215:8 243:7 319:25 330:6
movement 175:2
movements 168:18
moves 138:22
moving 168:16
Ms 167:19,22 168:23 179:8 191:4,6 192:5,10,21 193:2,6 194:7,10,16,20 195:15,20,25 229:4,7,10 232:4,5 234:13 237:14,25 245:4 248:1,2,12 249:1,13,14 250:2 257:14 289:19,20 298:2,18 299:7,21 300:3 306:4 325:3 331:4 334:4 335:14 336:11,12,14
MTS 145:10 147:9,10 150:5,19 209:20 272:18 328:15
much 140:19 147:23 155:16 166:1 168:22 181:13,17 188:8 208:16,17 226:20 246:5 253:22 255:25 264:24 266:9 270:15 275:25 306:13 312:14 329:8,9 332:2 336:11
multi-paged 158:12
multiple 169:24 173:16 214:11 226:18
must 155:21 173:23 196:10 231:18 232:12,15 233:14 305:7
myself 131:21 132:1 145:19 319:22

N

name 127:3,12,13 181:23,24 259:19,20,21 298:5,7
named 297:8
namely 131:24 141:3
nation-wide 211:25
natural 157:9
nature 264:8
near 136:14 204:17,24 277:24
nearly 264:13
necessarily 136:2 153:14 154:11 155:13,18 164:15 189:16 193:15 226:19 271:6 276:6 308:10 323:18
necessary 309:1
need 125:10 129:8 145:16 159:21 166:16 173:16 216:8 249:24 254:25 255:1,3 259:6 266:25 273:16 275:18 309:11 315:2
needed 132:5 142:3 173:12
needlessly 142:1
needs 131:7,10 254:22,23 308:14 319:18
negates 240:24
negative 157:21 250:10
negligent 152:20
neither 202:25
net 218:16 222:1 276:9
Net2Phone 268:2
network 150:25 230:23 269:6 300:21,22 301:2 304:3 315:12
neutral 161:6,19,22
neutrality 161:19
never 232:1 316:25
new 156:6 206:22 265:17 310:12,15 335:15
newer 311:10

next 138:18 143:11,19 149:7 196:6 220:25 256:3 272:14 282:19 298:2 302:10
 Nice 169:8,9
 nickel 292:20
 non-access 190:19 233:14 322:16,21 324:6,11 325:25
 non-accessed 323:2
 non-basic 304:10
 non-competitive 247:10,14,23 251:6,7,9
 non-dollar 189:19
 non-essential 305:8
 non-legal 309:23
 non-occurring 166:1
 non-price 153:2 174:12,12,12
 non-Qwest 238:12 250:5
 non-signatories 191:12
 non-signatory 271:25
 non-specific 189:20
 none 153:11
 nonetheless 165:25
 nor 255:10
 normal 218:1,2 268:15
 normally 199:13
 North 199:22
 Northwest 182:20 217:25
 note 163:24 167:6 170:10 172:20 246:21 250:7 262:12 305:24
 noted 246:7 249:15 262:15 265:15 305:22 324:16
 notes 178:17 245:20 309:22 322:23
 nothing 139:22 143:7 168:23 181:14 214:6 215:1 220:21 221:20 224:13 234:13 243:25 250:12 251:1 255:21,22 269:3 291:19 297:24 303:6 324:2 336:9
 notice 283:15 284:13
 noticed 216:4 283:24
 noting 272:4
 November 159:18
 number 125:7 133:15,18 134:14,19 142:1 143:17,18 148:6 158:17 165:25 166:1,2 177:2 181:13 187:3 192:19 199:22 217:18 223:4,5,7,11,14,19 233:21,23,23,24 236:22 244:9 254:23 276:3,4 279:3,4 283:17,20 286:24 287:22 293:11 322:22 323:2 325:1,18
 numbers 125:19 134:6 154:7 183:7 186:1 209:9 227:2,6 233:3 235:4 274:3 281:17
 numerical 188:19
 numerous 246:15

O

oath 124:5 316:11
 object 167:8 178:23 179:3 201:6 204:20 224:11 241:11 243:6 246:18 249:20 256:24 280:11 301:9 313:16 317:22 319:3 329:5 335:11
 Objection 162:20 163:25 172:16,20 176:3 194:6,7 231:24 244:17,19,21 246:21 249:4,4 279:20 299:20 305:15 315:19 318:14
 objections 129:19 167:4,5 185:1 260:15 281:2
 obligations 318:25 319:2
 observe 133:17
 observed 176:25
 observing 155:19

obtains 197:16
 obvious 131:25
 Obviously 132:3 170:20 173:15 188:18 202:17 223:12 267:2 273:19
 occasion 172:25
 occasions 208:13
 occupies 265:14
 occur 164:10 169:20 187:18 188:22 189:21 221:15,18
 occurred 130:24 137:21 169:18 170:11 200:11 220:25 221:19,21 240:25 285:8 292:11
 occurrences 128:11
 occurring 130:23
 occurs 137:14 170:16 221:14
 October 286:17 288:18
 OEC 216:3
 offer 129:13 167:9 177:15 178:9 189:5 211:8 280:4 328:25 335:8
 offered 227:3 228:4 245:8 260:13,13,14 280:2 316:25
 offering 279:18 280:25 281:1 325:24
 offerings 150:2
 offers 175:12 292:19
 office 223:1
 official 283:15 284:13 306:11 307:3
 officially 283:24
 offset 155:5 163:18 261:25 270:20 327:13
 offsets 261:20
 offsetting 163:23 225:9 321:2
 often 161:22 177:18
 Okay 125:16 128:19 129:21 133:3,9 142:4 148:4 149:1 151:2 156:19 167:15 168:22 170:14 171:5,7 174:9 180:6 181:11 186:7 191:21 193:2 196:22 197:20 198:15 199:19 202:20 205:7 214:22 215:15,17 217:17 223:25 234:9 249:22 254:20 256:22 259:14,15 274:10 275:2,12 276:14 279:16 280:2 284:24 285:2 293:10 296:2 300:12 313:6 314:3 318:21 319:25 320:12 321:8,14 322:9 325:14 326:3 330:24 333:7
 old 273:18
 oligopolistic 177:1
 once 137:23 139:8,9 170:17
 one-page 146:6
 ones 139:18 177:5 322:6 325:25
 only 125:9 132:3 137:20 139:20 140:23 142:11 154:11 163:16 164:13 166:12 176:24 196:2,3 198:16 219:16 221:3 230:22 231:12 233:23 236:2 237:21,23 239:22 243:6 250:2 255:17 261:16 262:7 286:10 287:1 306:5,23 310:12 315:8,14 322:6 327:7
 ooOoo 124:21 127:4 167:20 169:4 171:17 179:10 182:2 185:11 227:16 229:8 234:17 244:3 250:16 260:1,24 289:23 292:3 294:2 296:8 298:11 299:25 334:1
 open 282:5
 opened 207:2
 opening 207:12 243:10
 operate 164:15 247:2
 operated 224:24

operates 175:15 251:8
 operating 190:17 234:4
 operative 207:9
 opined 243:13
 opinion 147:12 156:1 173:4 176:11 178:19 216:22 225:22 246:16 249:11 295:2,23 301:10 305:20 307:4 309:24
 opinions 224:8
 opportunities 297:18
 opportunity 167:2 282:1 295:11
 opposed 125:15 222:9 297:20 309:9 330:9,22
 optimistically 336:12
 options 211:15
 oral 317:18 318:3
 order 126:18 133:10,14,15,19,20 134:2 135:15 136:1 139:18 152:9 155:7,10 161:6 166:8 190:20 191:11 195:9,21 196:11 210:12,15 216:2,3 227:24 228:2,3 240:18,22,22,23 241:1,3,4,13 242:3,6,9,16,21 246:8 249:12 264:23 272:3 283:13,15,20,23 284:8,13,16 285:3,7 286:21 288:16,17 289:1 290:17 303:12,13,21,21 308:10 313:19 314:15,21 315:3 334:8
 ordered 208:3,7,10,17 209:6,23 241:24 313:11 316:15 334:22
 ordering 202:9
 orders 319:21,23 334:14,20
 ordinary 199:22
 OREGON 124:1 161:4,15 172:1,14 173:4 175:24 176:21 183:4 197:15 210:19 231:18 232:12 233:11 234:5 242:21,25 243:20 247:16,19 262:24 264:14 265:23 266:7 268:6 304:9,13,20 305:18,18 306:1 315:2,15 316:12 318:12 321:21 325:8 327:20 330:8,14,15 332:9 334:17,18 335:2
 orient 124:7,10
 original 139:12 209:13
 originate 196:11 197:7,11
 originated 235:9,19
 originating 199:2,6,8,15,15 237:12 333:14
 origination 197:4 198:8 199:25
 ORS 310:7
 ostensibly 162:12
 others 215:7 313:12
 otherwise 136:24 141:22 251:10 268:11
 out 134:1,13,23 135:14 138:12 140:13,16,19 141:10 146:6 151:10 152:21 153:19 156:19 161:23 164:12 182:24 189:1 195:12 202:12 208:16 209:13 213:1 215:11 216:2 220:8 242:17,21 257:23 275:15 276:4 280:22 286:10 287:5 309:25 310:7 311:25 322:5 326:21 331:9
 outcome 326:5
 outlines 131:9 286:24
 outputs 135:14
 outside 172:17 221:23 224:12 322:6
 outward 199:15
 over 124:17 128:17 131:19 132:11 140:6,6 152:1,25 157:13 161:18 173:7 188:5 189:22 198:8,16 199:6,10,12,22 200:1 211:8,10,17 215:

12 217:7 222:25 229:4 253:12 274:8,11 302:20 309:4 314:25 327:21 328:9,18 329:4 330:8 331:1,19 332:2,10,12,16
 overall 130:22 214:17,18 254:7,9 261:16 327:1 331:15
 overlooked 279:18
 oversight 191:15
 overstatement 225:4
 own 150:1 154:24 155:15 156:12 216:22 217:21 254:19 267:7 269:4 297:17,19,20 333:12

P

Pac 209:3
 Pacific 157:22 159:3 180:19 181:7,12 182:19 200:13 206:4 208:3 210:13 223:2,9,18 227:24 228:4,7,18 238:17,23 245:7
 Pacific's 223:3 228:24
 packages 186:25
 pages 129:3 135:7,11 148:4 183:1 192:6,9 217:16 239:12
 paid 199:20 229:24 234:3
 pain 277:3
 paper 159:1,7 160:8 192:1,1 211:10,16
 paragraph 248:21 272:14 302:7
 parameter 143:5
 parameters 239:16
 parens 155:4,5
 parity 170:9 207:20 210:7,12 227:21,25 228:4,8 265:17 266:1,5,16 286:11,14,20 287:1,4,6,7,13,15,17,18,21,24 288:11,19,22,22
 parse 202:14
 part 144:15 159:1 173:6 175:6,20 189:12 251:17 252:22 271:22 280:22 311:11 320:7 325:12 335:20
 participant 200:20,21
 participants 131:1
 participate 216:19
 participated 246:15
 participating 205:20
 particular 133:17 137:1 138:8 140:17 142:11 143:6,10,14 145:20 148:17 153:18 161:14 172:9 178:8 219:2,3,7 231:9 284:8 293:23 302:7 303:17,25 313:11 333:16
 Particularly 150:24 156:7 186:17
 parties 258:10 326:6
 partners 195:10
 parts 160:13 277:4
 party 199:21 256:23,24 299:19
 pass 202:4 313:13 314:5 315:5,17 316:1
 passed 203:18,21 273:11 316:16 318:17
 passes 126:16
 past 144:19 145:6 171:13 186:13 276:23
 pattern 186:12
 patterns 270:11
 Paul 158:6
 pay 212:9 231:19 232:12,16 236:24 328:5 329:8,9 330:18 332:7,9
 paying 196:16 197:12 199:21 233:9 304:7 326:18 327:4
 pays 191:18 233:1 234:25 235:2 237:11 326:14
 penny 318:11,11

<p>people 174:19 278:2 295:10 296:16 318:18 people's 296:17 per 125:20 132:8 146:13 147:1,1,2 154:19 185:20,21 186:23 187:6 189:17 191:19 209:2 211:4,13,20 226:7 231:19 234:2 278:16,21 279:10 290:20,21 291:13 294:19 297:9 320:2,7,10,13 322:16 323:4,24 328:11 335:9 percent 128:2,3,21,21,25 143:17,20 209:20 264:14 265:1,3,6,13 267:4 268:6 273:5,8 274:12,12 275:5 276:4,5,8,10,15 281:21 283:5,9 284:5 295:16,22 327:19 percentage 204:13 209:15 246:2,6 265:19 273:3 274:3,13,22 281:19 327:1,14 329:3 330:7,17,21 331:1,14,18 332:8,10 percentages 275:16 perfect 141:22 perfectly 179:15 248:25 perform 131:13 153:17,19 210:19 performa 286:19,21 287:1,2 performas 286:25 performed 132:20 135:3 151:21 152:7 262:23 performing 235:25 252:12 perhaps 171:11 189:5 199:4 200:7 212:8,25 222:20 238:1 242:5 247:16 250:5 257:5 258:9 265:3,3 283:13 309:9 326:23 period 130:25 131:20 137:7,8,9 141:6,9 147:23,24,25 154:4 170:18,19 171:3,4 173:24 189:23 195:2 213:17,18 221:22,22 239:17 258:24 264:8,10 267:13 282:13 291:12 periods 150:9 213:15,16,22 permanent 139:17 permit 247:21 permitted 178:9 247:2 305:11 permitting 247:9 251:6 person 195:19 226:18 268:17 personal 166:17 271:18 perspective 233:4,13 308:18,19 pertains 128:11 Phase 134:19 206:21 241:15 310:7 phased 309:25 phases 308:6 phenomena 220:3 phone 211:6,11,19 226:14,17 268:19 292:8 293:17 phones 267:21 293:13,17,18 phrase 128:1,11 282:4 308:19 phrased 301:9 PIC 288:7 Pick 166:2 268:19 270:23,25 Picking 234:20 picture 140:10 175:9 pieces 169:13 pinpointing 178:6 pizza 198:7 place 188:22 189:2 190:5 219:21 221:6 226:17 265:13 305:18,18 308:12 placing 226:22 plan 228:4 290:17,19 296:22 320:9 335:15,18,24 planning 321:21 plans 142:15,16 328:20 335:22,22,</p>	<p>25 336:6 plausible 131:10 189:3 Plaza 184:4 please 124:8 127:2,11 128:17 133:1,24 142:13 157:18 158:10 164:25 165:2,8 168:5 174:10 176:19 181:1,22 183:2,13 229:19 245:19 246:22 259:13,15,18 298:3,5 306:22 pledge 313:24 314:1 318:23 319:11 pledged 202:3 313:12 314:4 plenty 192:11 plot 133:16 Plus 130:13 135:20 137:7,13 140:18 141:5 143:25 146:21 148:1,12 170:9,11,15,17 171:4 207:20 210:6,9,12 219:11,16,17 220:18 221:16,16 255:20 266:5 267:9 284:17 288:3 302:13 point 124:13 125:2 138:12,15,19 140:19 143:3 145:23 147:19 148:11,17,18,20 149:1 151:9 152:16 160:20 164:12 166:20 178:4,8 180:25 189:14 190:3 191:12 194:25 210:9 219:15 226:12 243:8,11 246:5 250:9 251:2,23 280:22,25 281:24 286:10 292:6,16 294:12 295:13 313:17 318:4 323:9,15 324:7 333:3 pointed 132:13 172:8 249:13 326:21 points 131:23 132:1,2 140:8,11,11,15 145:24 146:1,2 230:25 231:1 polanarity 141:23 policy 246:23 247:8,21 polynomial 133:10,14,15,20 135:16 144:11 266:14 poor 323:7 population 132:8 portion 190:19 192:23 193:4 196:6 277:5,5 portrayed 217:21 posed 329:6 position 162:17 164:17 165:15 166:5 181:7 195:11 213:20 217:11 247:1,4 315:9,10 positive 155:4 possibility 143:14 175:1 possible 149:14,15,16 151:17 153:13 189:6 191:22 199:5,9 206:9 219:13 236:12 254:4 255:15 268:9 270:24 296:18 302:22 303:4 311:20 324:10,12 possibly 139:18 140:9 148:6 284:23 post 287:3 postponed 322:1 potential 150:1 170:22 310:5 311:12 potentially 323:16 practical 219:13 327:9,10,11 practice 211:25 251:4 252:12 pre 156:8 287:10 precise 180:25 207:6 precisely 187:7 188:22 189:1,17 190:5 216:21 224:23 247:17 252:9 precludes 309:16 precompetition 173:2 predict 164:9 preference 157:9 prefired 129:10 298:21</p>	<p>premiered 208:15 prepaid 149:8 prepared 124:15 169:15 190:4 Preparing 169:11 232:1 prerogative 164:19 presence 230:25 present 269:11,11,12 272:9 325:4 presented 183:16 259:4 pressured 188:7 pressures 270:9 271:3 presubscribe 266:4 presubscribed 287:9 presubscription 130:14 135:20 137:8,14 140:18 143:25 146:21 148:1,12 170:17 287:10 presubscriptions 170:15 Presumably 201:20 282:14 pretty 160:2 166:1 226:8 227:5 264:16 312:14 prevent 201:17 308:12 309:19 312:3,7 313:8 prevents 269:3 312:8 previous 141:9 154:4 203:6 206:1 208:14,18 previously 200:11 246:16 302:5,24 312:2 priced 157:3 278:21 305:6 329:22,24 prices 146:1 152:25 156:2,21,23 174:13 175:25 177:10,12,13 186:20 187:15 188:4,8,9,13 189:4 204:6,7,10 205:12,21 208:4 214:19 218:15 221:21 231:18 232:12 233:8 235:14 236:14 237:2,2,3,22,24 247:13,14 266:17,18,21,22 267:1 278:10 293:1 295:14 300:10 301:12 302:24 305:12 307:21 308:4 309:15 314:15 pricing 231:8 300:13 301:5,23 308:18 309:16,19,21 312:8,11 315:11,13 316:17 318:18 primary 153:24 169:12 171:25 179:23 244:11 245:22 256:15,19 259:3 265:16 principal 173:17 prior 141:9 156:16 209:3,5,6 279:25 288:21,22 302:6 privy 156:4 probability 143:13,14 probable 175:23 176:20,24 177:8 Probably 130:20 140:14 223:13 225:2,4 226:4 229:22 284:21 289:1 problem 141:22 146:24 168:2 169:23 195:14,18,20 252:17 308:16 problems 195:22 311:15 procedurally 260:12 296:15 proceed 171:15 212:21 proceeding 159:4 164:12 166:11 172:25 173:14 176:1,23 180:10,21,22 181:3 200:9,10,20 216:20 223:3 246:3 255:10,19 301:7,24 302:2,16,19 303:5,8 312:19 319:5,9 proceedings 200:7 312:16 process 251:19,20 287:8 processing 230:6 278:4 produce 174:15 produced 134:1,8 180:9 225:4 producing 233:15 product 176:22 203:25 204:5,16,</p>	<p>24 217:19,20 219:3 231:8 277:23 297:14 production 230:20 products 315:13 profile 139:17 140:5 profit 190:18 231:7 234:4,7,8,12 302:10,13 323:17 program 189:10 programs 186:25 293:4,5 prohibit 247:19 prohibited 247:15 projected 166:8 261:22 263:5,9 projecting 263:4 promise 330:6 promotion 293:8 promotions 293:3 pronounced 290:5 proof 147:20 proper 152:22 228:21 properties 136:6,6 144:8,9 proposal 183:18 262:10,20,20 proposed 156:20 166:13,18 173:13 183:19 186:4 190:11 223:2,12 238:18,23 246:2 314:18 319:6 323:4 325:23 proposes 276:15 proposing 180:19 proposition 270:7 277:21 proprietary 223:4 227:4 protected 225:20 protective 134:2 191:11 195:9,21 272:3 protocol 268:1 prove 161:21 319:15 proved 139:21 provide 124:15 158:21 178:4 190:21 196:15 210:14 231:3 234:12 254:9 269:7 282:13 283:20 301:2 302:12 303:15,18 304:2 316:18 325:18 326:10,17 327:24 333:11 provided 227:1 230:2 231:16 237:15 257:21 307:7 332:2 provider 178:4 219:17 235:22,23 236:4,5,15,16,23 264:5,19 306:5,24 307:20 308:3 324:3 providers 154:23 168:16 174:25 187:16 206:5 215:5,6 265:9,16 307:19 308:2 328:6 provides 196:9 225:19,20 237:10,16 304:5 327:20 328:9 providing 197:9 231:22 237:17 304:1 323:20 326:24 327:5 provision 230:22 251:17 provisioning 230:6 proxies 151:14 proxy 132:13,18 PTC 179:20,22 258:5 public 193:3 209:11 228:11 247:21 publicly 315:14 published 159:7,11,24,24 160:4,13 201:24 280:9 PUC 169:7 181:3 200:12,17 201:4,12,16 202:3,8 203:11 206:2,13,16 208:2 209:19 222:13 223:15 260:3 312:16,18 313:13 324:16 PUC's 206:22 pudding 147:20 purchase 196:10 332:19 333:13 purchased 168:17 330:14,15 purchases 197:3</p>
---	--	---	---

purchasing 327:13
pure 174:3 230:5 295:21 323:17
purely 143:16 290:12 294:24 295:15,17,21 307:3 322:22 324:3
purpose 145:17 173:9,11 183:17 187:9 198:1 220:6 225:7 241:7 271:12 297:12 301:18 302:1 306:12 325:17
purposes 146:22 148:21 155:22 166:11 198:8 199:2 234:24 235:1 241:8 291:11 297:15
pursue 175:24 176:21 319:19
pushing 155:23,23
put 138:15,24 178:5 223:9 247:1,4 257:10,13 271:16,17 284:9 335:24 336:6
puts 131:8

Q

quality 130:20
quantification 272:17
quantity 218:3 220:4,5,24
quarter 256:7 263:17,18,19 289:17
questioning 224:21 234:20 239:4 241:18 243:8 245:3,6 296:17 333:9
questions 127:20 129:10 167:17,23 178:25 179:6,9 180:6 184:16 203:9 212:12,16 227:19 228:10 229:11 242:6 244:6,7 246:10,20 247:25 257:3,10 273:20 289:11,20 291:25 293:10 296:22 297:7 299:11 305:17 313:21 333:10,19 334:4 335:5
quick 179:9 247:24
Quickly 329:16
quite 165:23 208:19 243:4 257:19 296:12 305:17
quote 241:25 242:1 276:20,23 279:9,11 300:13
quoted 246:8
Qwest's 130:11 150:1 157:13 165:10 174:6,13 175:25 176:22 178:21 186:8,11 190:2 193:12 220:9 235:8,14,20 236:12 237:2 261:6,9 264:7,23 265:13 267:11,23 269:1 278:15 300:5 306:8 309:15 314:18 319:6 323:4

R

race 271:2
raise 126:25 251:6 259:15 298:3
raises 215:10
raising 247:6,13
range 222:17,19,20 223:13,14 276:11 295:7 296:14 304:19 324:17
rapidly 178:3
Rapport 158:7 159:1,2,14,22 160:8,16 180:15 222:21 223:7
rate 149:2 163:7,8,11 164:3,11 173:13 186:24 189:17 202:5 206:21,25 207:3 208:17 217:1 222:2,2,5 223:17 241:15,25 244:16 245:25 246:2,5 250:24 262:15 263:12 274:25 275:5,11 276:8 278:8 281:6 282:6 283:6 284:25 285:12,15,16,18,19 286:6 288:16 290:20 291:13 293:16 304:7 307:8,9 308:14 309:18 310:1 318:12 320:3,7 321:6 323:19 324:8 328:2 335:6,7,9
rated 320:10,23 327:25 329:1

rather 131:25 155:20 173:22
re-examined 208:6
re-redirect 244:22
re-structure 335:6
reach 155:21 268:20
reached 216:19
reaching 178:3
react 261:9
reacted 217:2
read 128:21 223:22 270:13 280:13,14 294:13 295:8 306:21 310:19 332:13,24
readily 131:16
reading 132:25 190:12,22,25 205:4 242:8 295:4 306:9 309:23
reads 128:20 305:5
ready 126:7 181:19 259:11
real 312:7,7
really 125:10 224:14 230:3 231:12 233:24 275:4 282:23 301:9 309:6,8 313:18 321:6 328:13 331:5 335:18
reason 131:17 138:12 156:22 174:2 188:6 189:24 206:11 212:7 225:10 277:17,19 278:2 296:17
reasonable 132:2 175:16 179:2 187:11 223:13,19 302:10,13 319:7
reasonableness 222:17,19
reasonably 189:23 297:18
reasons 133:11 157:12 174:20 212:8 253:10 287:13
rebut 180:23 249:12
rebuttal 129:17 135:4,18 143:22 148:5 154:16 157:18 163:4 165:21 180:24 215:16,19 259:25
recall 161:1 172:2 223:24 224:1 227:3 242:11 253:4 259:6 264:18 281:22 282:17 283:5,7 287:22 292:7,14,18,22 293:14 296:24 297:10 334:6
recalling 124:3
receive 211:5,7,9,10,16,17,19 212:3 316:19
received 128:24 159:18 210:13 316:8
receiving 185:18
recent 130:11 209:24 267:3 311:9 320:24
recently 211:3 317:15 320:12
Recess 165:5 171:14 213:4 256:9 258:16,18 289:18 336:18
recite 201:19
recited 242:13
recognize 134:22 137:12 146:9 151:10 193:11,16 273:15,18
recollection 210:16 227:5 228:9 333:4
recommend 261:4
recommendation 220:9 222:10,14 252:19 261:8,12 262:12,22
recommended 252:1
recommends 262:12
reconvene 336:16
record 125:9 126:10 127:3,12 128:14 129:6,16 142:13 165:1,4 179:22 181:23 192:6 194:12 196:6 209:11 216:17 227:22 228:16 238:7 256:11,11,21 258:12,19 259:19 272:5 284:9 296:18 298:6 299:18 305:16,24 313:21 322:20 330:4 331:7

records 157:22
recover 320:1,6
recovering 302:9
recovery 252:7 302:13
RECROSS 124:22 179:11 234:18 243:9,11 250:17 296:9 297:25
recurring 320:10
REDIRECT 171:18 172:17 176:3 178:24 227:17 229:3,5,9 243:9,10 244:4 291:21 294:3 296:13 334:2
reduce 156:11 183:18 185:21 188:13 189:4 190:16 200:17 201:12 203:11 219:6 220:3 222:5 247:13 262:5,7 266:17,20 267:1 270:20 312:20 314:21 315:9
reduced 155:5 189:18 200:12 203:5 205:20 221:22 307:6
reduces 266:18,21 307:20 308:3
reducing 188:8,9 261:21
reduction 128:12 156:3,13,15,20,23 183:19 186:3,3,5,23 187:10 188:11,12 189:16,17 190:9,11 200:14 204:14 207:1 208:2,9,16,16 218:10 219:19 220:1 222:5 225:23,24 239:7 240:5 241:7 246:6 253:24 261:13 262:10,14 267:5 272:21 273:3,4 274:25 275:5,9,11,23 276:4,6,8,10 278:8 281:19 283:5,9 284:5,20,25,25 306:15 314:11,12,19,20 316:16,19 334:5
reductions 130:13 135:20 144:1,13 155:3 159:8 164:10,11 173:13,18 187:25 188:2,3,3,4,23,24 202:5,9 203:19 207:4 208:3 214:17,18 217:5 222:2,3 245:25 246:2,5 261:21 262:4,7 273:7,24 274:3 276:15 313:14 314:6 315:6,16,18 316:2,7,12 318:12
refer 160:3 199:13 217:20 239:11 263:15 271:20 285:20,22 304:8
reference 126:11 237:15 304:9 312:15
referenced 158:21 159:1 167:7 228:3 239:13 263:21 268:24 280:8
referencing 231:15
referred 196:19,25 197:23 206:1 215:19 238:17 244:9 268:1,2 324:25
referring 173:10 174:24 200:10 204:22 229:23 258:22 262:2 264:10 265:24 269:17 270:3 286:6 290:23 296:25 308:8 309:6 310:7 320:9 322:11
reflect 139:5 153:6 169:20 183:9 186:20 219:24 234:3 258:5,23 289:1
reflected 142:8 144:4,25 145:1 160:16 168:11 171:25 179:18,19 183:10,21 194:12 209:24 258:1 261:12 270:11
reflecting 171:2
reflection 190:15
reflects 232:22
regard 269:15 284:22
regarding 227:20 228:17 234:21 244:7 246:11 252:12 292:6
regardless 157:9,15 162:2 280:12
registered 184:25 260:15 299:19
regression 150:16 270:22 271:4,9,11,12

regulation 310:17
regulatory 141:8 174:15 206:22 253:18
Reichman's 192:24
rejected 201:4 208:13 228:7,24
related 296:25 321:10
relates 244:14 335:3
relating 228:21
relation 222:5
relationship 131:10,16 132:17 152:1,6 153:12
relative 154:24 204:21 208:14 251:9 306:16
relatively 156:5 187:13 204:17,20,25 277:24 278:1 290:13,15 294:22 332:15
relevance 319:4
relevancy 236:3
relevant 218:7 235:20,24 237:23 304:25 319:8 324:22
relied 159:2 206:1 318:24
rely 151:14 236:21
relying 159:23
remain 137:25 314:16,22 315:3
remainder 184:5
remained 218:18 221:21
remains 161:11 310:5
remand 303:12,21
remarks 158:25
remember 125:1 192:8 292:10 306:9 317:13,16
remind 145:16 305:16
remove 150:13
removed 259:1
repeat 176:19 227:4 249:24 266:19 301:21 307:23 331:11
rephrase 153:25 166:4 245:19 330:1 335:13
replace 192:5
replaced 184:4
report 158:6 282:14 316:21
REPORTER 130:6 303:11
reporter's 130:4
reporting 318:24 319:1,5 334:5,9,15,22
reports 265:8,9
represent 168:3 169:17 231:4 266:13 286:2
represented 232:25 264:9
represents 136:20 189:11 190:18,19 214:7 264:4,7 323:18
reputation 157:7
request 134:11,14,19,20 135:8 146:10 158:17,20 194:10 228:7,25 286:3
requested 330:25
requests 134:23 193:13 330:13
require 188:21 309:17 314:21 334:9,15,20
required 190:20 197:4 201:1 252:21 300:18 308:10 314:16
requirement 241:8,14,22 287:2 302:19,21 309:24
requirements 301:13 319:5
requires 161:19 242:9 303:7 306:1 307:18 308:1
resale 230:5
research 282:24 284:3
resembles 266:3
residence 125:19
residential 125:5 227:2 278:20

279:9 294:18 326:22 resold 328:7 resolve 258:17 resolved 271:24 272:3 respect 150:1 165:16 167:6,6 168:9 178:8 235:8,14,18 237:22 238:1 250:4 254:17 272:20 273:2 280:7,18 respected 157:8 respective 218:13 respond 176:6,6 187:23 188:18 215:3 253:14 261:13 278:2 295:18 responded 180:6 224:18 232:17 264:17 286:10 responding 177:6 214:11 225:6 244:7 response 134:10 135:1,8 138:23 139:13 145:3 146:10,12,14 155:4,16,17,22 156:2,16 158:17,24 159:22 163:18 164:7 174:3,3,6,11 175:8,21 183:14 187:2 189:14 204:6,9,13 205:14 213:14 214:7,13 231:16,23 232:1,7,22,25 233:15 239:3 245:11 251:2 264:18 276:21 277:15 278:11 280:23 285:8 286:3 318:23 330:12 responses 134:23 164:13,16 167:11 173:18 174:5 175:25 176:22 178:20 193:12 229:21 285:11 responsibilities 325:13 responsibility 255:9 responsible 254:8 rest 141:7 153:16 221:3 restate 249:20,22 331:12 result 130:25 142:20 144:22 164:10 175:25 176:1,23 219:19 222:2 223:8 225:1 233:22 240:4 241:15 253:23 261:21,22 286:8 resulted 220:18,25 238:21 resulting 155:4 225:12 262:23 288:17,23 323:17 results 135:2 141:16 159:7 160:19 222:23 272:11 276:20 retail 188:3,8,9 190:21 229:25,25 230:23 231:8 232:15 233:8,22 302:2 307:20 308:3,9 323:19 324:4 retention 293:4 return 147:6 336:17 revenues 131:18 136:11,12 144:23 145:10 154:13 161:10 162:13,16 163:9 166:7,11,15,20 225:11 239:25 240:3 254:10,14 262:7 267:7 285:6 286:7,21 reverse 204:12 revert 140:24 review 178:16 revise 208:13 revised 128:24 revision 208:18 right-hand 136:14 145:7 250:8 279:3 rings 226:7 ripple 174:16 role 150:8 room 191:12 195:12 226:25 roughly 172:23 round 245:2,5 246:5 route 199:9 routed 199:12 327:21 routes 199:5 rule 248:18 303:22 305:5	rules 175:14 296:13 302:3 308:12 312:3 334:9,14,19 run 141:22 152:11 186:1 215:13 257:20 runs 142:9,21 <hr/> S <hr/> S-e-l-w-y-n 181:25 S-t-a-r-r 298:8 sacred 143:7 sake 129:15 142:3 237:7 SALEM 124:1 221:11 same 125:17 133:5 147:2 175:4 184:16,17 187:7 188:13 189:1 190:3,5,6 199:17 202:20,22,23 205:21 206:7,24 214:10 220:1 226:18 235:21 259:4 262:7,23 282:25 291:16 292:6 293:3 295:20 299:11,12 301:1 304:6 309:7 312:19 316:18 319:1 322:18 324:6 328:8 329:6 saturation 295:13 saying 125:13 133:16 230:7 239:12 251:4 274:14 285:16 294:22 318:10 335:16 says 128:1,25 136:17 142:23 143:11,11,13 144:20 160:9,19 190:14,23 194:2 197:2 204:24 240:19 248:21 263:21 272:8,13 274:17 276:20,25 279:9 294:23 295:2,24 301:12 310:20,20 313:19,19 323:8 scanned 295:5 school 133:11 scope 162:21,22 163:3 172:17 178:24 221:23 224:12 sealed 192:25 193:4 seated 127:2 181:22 259:18 second 135:1 143:19 144:18 159:13 168:4 170:1 188:22 189:1 193:12 212:13 226:13 227:11 233:20,24 246:4 258:22 275:15 279:2 283:22 297:17 Section 300:13,19,20 301:4,11,14,22 309:25 securities 255:7 see 136:15 146:14,15 147:4 154:18,20 157:24 158:4,7 159:9,14,15,17 160:9,23 168:13 176:3 177:5 187:15 214:17,19 215:8,11,24 217:23 218:15 219:8,19 223:1 248:20 275:8 279:8,16 285:7 306:2 313:20 315:16 318:4 319:14 326:12 seeing 135:14 279:12 seem 147:19 235:12 seems 217:4 seen 193:15 232:2 294:6 311:9,14,15 segmented 265:10,10 self-evident 132:1 sell 330:12 331:25 sells 230:10 328:19 Selwyn 181:19,24 182:3,9 183:2 184:15,24 185:5,14 190:22 191:16 193:7 194:22 196:8 200:6 205:5 212:16 213:5,10 227:19 229:11 231:25 232:5 238:7,8 243:9,13 244:6 245:21 247:24 248:8 249:8,11 250:11,19 255:25 277:15,18,20,25 323:6,10 Selwyn's 180:23 181:1 182:25 204:23 224:13,17,19 semantics 308:20 Semi-parametrics 297:4	sending 198:16 sends 200:1 sense 130:19,21 150:16 218:9 309:10 sensitive 156:7 sent 134:23 195:12 sentence 128:19 154:18 160:8 232:24 233:16 248:20 270:7 280:14 294:15,23 295:24 separate 135:19 141:12 143:1 145:13 185:6 220:2 228:17,20 236:10 separated 141:10 separately 150:6 152:14 211:5 261:14 separates 171:3 September 310:3 series 131:24 133:17 136:7,8 144:8 145:18,19 148:20 152:19 170:12 serve 129:3 services 178:5 217:3,4 218:12,12,13 235:18 247:7,10,14,22,23 250:21,25 251:6,7,9 252:13 264:6 290:8 291:16 293:6 302:3 304:3,10,25 306:16 308:16 309:15 310:13,16 312:11 315:11 318:13 323:20 326:18 328:14,15 329:1,22 set 138:3 139:3 143:3 161:23 163:4,11,23 168:8 170:25 172:22 177:3 190:10 193:12 223:17 230:9 247:24 273:23 284:19 291:16 300:6,20,21 301:1,14 302:2,16,19,21,22 303:4 304:12 sets 164:7 172:10 242:25 243:20 273:22 304:20 setting 244:14 245:23 301:6,24 308:8 settlement 134:9 254:12 281:8 settlements 237:6 several 169:24 178:25 194:18 208:13 223:18 278:3,7 shaded 144:18,19 145:7 shall 197:14 shape 173:25 174:16 share 217:6 265:20 267:11 she's 196:3 305:17 313:17 318:3 319:11 sheet 144:16 145:6 168:6 194:11 shift 166:8 174:10,11,24 175:7 215:8,11 217:10,12 218:19,22,23 219:4,8,13,23 220:3 221:12,14 239:8 253:3,8 shifts 138:19 155:23,24 164:8,16 174:5,18,21,23 175:2,6 176:10 221:5 ship 230:18 short 165:7 195:1 215:13 256:4,6 289:15 shortly 258:15 shouldn't 240:17 252:15 255:14 show 133:1 147:15 204:5 220:1 248:12 302:11 306:14,15 317:11 323:25 325:18 331:7 332:17 showed 142:11 332:17 333:1 showing 143:15 249:13 296:11 shown 188:2,19 218:20 220:13,16 221:2 233:15 250:8 shows 144:7 176:15 212:2 side 145:7 328:5 sign 195:21 272:3 signatories 193:5	signatory 191:11 signature 195:8 significance 130:18,20 131:4 135:19 142:24 143:1,2 154:24 significant 130:10,16,19,21 131:22 140:19 142:6,11,20 143:6,23 147:15 153:12 154:1,7,12 156:13 165:15,18,19,20,24 233:3 278:5 303:15 314:19 332:20 significantly 174:22 246:6 signify 148:23 similar 149:4,21 153:17 168:8,8 176:5,25 223:5 227:5 230:21 284:21 similarly 152:11 simple 281:16 simply 172:18 185:9 186:23 221:4,23 225:15 226:16 231:7 234:10 247:6 249:2,13 255:6 264:7 268:17 271:7 275:3,16 287:6,8 295:10 305:19 323:11 since 150:7 157:22 184:2 205:3 235:4,7 275:21 277:3 285:7,12,18,19 286:5 302:5 326:6 332:7 333:5 Single 149:2 177:20 178:4 214:8 248:16 sir 124:4 142:13 181:17 252:4 254:16 sit 283:4 311:21 329:2 Sitting 149:18 221:9 232:6 situation 156:19 217:23 219:18 226:5 230:16 237:16 264:22 266:2,23 268:23 269:13,14 295:17 303:25 306:5,24 312:9 324:1 327:2,7 situations 177:17 197:6 226:15 307:5 311:12,24 size 265:7 270:9 slightly 190:2 223:21 285:1 slip 161:16 slope 138:10 139:21 140:22 170:6 sloping 217:25 slow 185:16 small 142:10,20 157:20 177:3 326:23 327:1,14 330:17 332:8,9 smaller 244:16 sold 327:22 328:8,15 sole 212:7 264:5 solely 220:6 236:21 solve 195:22 somebody 230:9 somehow 146:1 225:7 someone 223:1 226:7 sometimes 217:21 somewhat 136:21 189:4 214:20 295:10 soon 138:17 sorry 127:20 130:3 151:5 155:10 160:21 168:24 179:23 182:12 191:5 192:19 195:17 197:3 209:4 215:18,21 235:5 236:9 242:2 244:17 253:18 280:3 283:25 290:20 291:23 300:15 307:23 320:4 324:13 331:10 334:10,12 sort 204:11 218:5 226:16 230:14 252:25 258:7 277:3 296:15 309:9 313:23 sorts 177:14 sound 274:18,20 sounds 283:12 310:5 source 149:2 sources 174:25 254:23
--	--	---	---

southeast 217:25
 speaking 187:19 231:7,7
 speaks 175:7 274:21
 special 197:23 198:9,11,12,17 199:6,10,18,24 200:2,3 326:25 327:6,13,21,22,23 328:1,6,9 329:4,9,22 330:9,14,17,22 331:2,14,19 332:3,7,10,12,16,19,22
 specific 149:12 161:20 208:17 242:11,12,18,20 264:22 311:8,18,23 312:1,22 318:19 325:18 333:12
 specifically 152:8 191:20 218:7,10 240:2 241:23 242:13,16 245:10 246:9 247:18 253:17 254:11 305:3 310:12 331:22
 specification 131:8
 specifics 313:4,18
 speculate 324:24
 spell 127:3,11 181:23 259:19 298:5
 Spelled 181:24 259:21
 spent 173:6
 sponsor 223:23
 sponsored 182:19 259:24
 spot 180:25
 spreadsheet 144:15
 Sprint 169:11 171:25 202:3 236:5,10,14,17,18,23,24 237:11,11 256:14,18 258:25 259:2 292:22
 Sprint's 237:2
 spurious 221:4 272:11
 spurred 266:15
 square 144:10
 squeeze 201:1 202:18 234:24 235:1,13,25 237:14,24 247:25 248:12 249:9 306:5,13,20,23 307:12,18 308:1,10,17,20,21 309:2,10 311:12 313:2 322:10 325:15
 squeezed 202:12 307:5 311:4,25
 squeezes 311:17
 Staff 124:13,14 169:7 212:17 213:6,11 216:5,15,19 223:11 256:20,22 259:25 260:3,18 262:2,12,20 263:15 270:4 271:21 276:18 281:13 285:6 286:25 289:7 291:21 295:7
 Staff's 222:14 259:24 262:6,9,21 269:15
 stand 126:22 179:14 259:9,15 298:2 316:10
 standard 132:12 300:13 301:5,14
 standards 301:23
 standing 218:19
 standpoint 306:11 307:3 314:24
 stands 147:8 301:4
 Starr 237:14 249:1 250:2 298:2,7,12,18 299:7,21 300:3 306:4 331:4 334:4 335:14 336:11
 Starr's 237:25 248:1,2,12 249:13,14
 start 124:3 155:14 256:5 270:6 328:17 335:16 336:13
 started 207:18 209:13 320:24
 starting 154:17 204:14 208:16 244:16 246:5 271:22 287:8 300:16
 starts 138:22 248:16 299:3
 State 127:3,11 130:9 146:24 149:25 150:4,19 154:22 155:2 157:19 158:1,24 178:14 181:23 194:22 196:8 210:11 227:25 234:4 236:21 244:11 246:16 259:19 265:10 270:15 272:14 295:22 298:5 302:17

316:5 321:25 322:3 323:2 325:2 326:8 334:9,14
 state-wide 232:23 235:5,7
 stated 179:20 209:24 216:5 239:4 240:19 285:10,17 307:1 312:6
 statement 126:11 155:11 158:25 192:24 196:19,24 197:2,5 204:12 246:11 301:18 302:11
 statements 302:6
 states 149:7 173:3 246:15 312:3 315:15 317:15 321:23 322:5,8
 stating 315:5 316:9,10
 statistic 143:4
 statistical 130:17,20 131:5,6,8 142:24 143:2 148:24
 statistically 135:13 143:6
 statistician 143:3
 statistics 295:9
 status 322:1
 statute 305:12 310:20,20
 statutes 305:18 334:9,14
 stay 226:17
 steps 173:12,16,17
 still 124:4 157:12 174:19 189:20 194:25 203:14,17 205:6 210:6 214:13 245:15 278:7 294:8,10
 stimulate 268:15
 stimulated 225:11 261:15,15,16
 stimulation 155:4 208:7,23 213:13 225:9 253:25 262:12,18 274:6,7 275:1,4,14,22,24 280:18,20 284:15,23 285:3 287:4
 stipulation 241:15 242:3 284:8,15,17,19 286:24 288:21
 stock 220:9 221:7 253:15
 stocks 253:11
 stop 170:22 173:21
 strategic 315:12 316:17
 Street 221:9 253:2,6,8,9,13,13,20,21,24 254:3,9,13,22,23
 strictly 309:12 320:2
 strike 243:7
 structural 130:10 143:23 174:14 175:13
 studied 226:3 277:18
 studies 135:3 172:24 180:7,9 206:1 257:20 280:7 289:5
 study 160:16 168:20 172:18,18,23 173:1,12 174:22 175:20 180:21 181:2 210:19 216:6 223:23 224:4,9 262:23 263:2,4,9 264:9,10 269:18 271:14,17,20 272:8 276:20 280:8 289:8 294:6,14,16
 stuff 160:13 255:5
 subject 134:1 192:4 199:23 249:23 281:23,25 282:12,21 334:24
 submitted 166:19 263:3
 submitting 325:14
 subscription 170:9,11
 Subsection 310:9,10,12
 subsequent 140:2,24 147:23,25 150:11 170:1 181:9 240:25
 subsequently 157:22 161:12 169:19 292:18,20
 subset 321:15
 subsidiary 287:14
 subsidization 247:9,20,22 250:20,25 251:12 252:13
 subsidizations 251:21
 subsidy 251:8
 substance 188:21

substantial 190:19 217:1 278:8
 substantially 223:17 272:9
 substitute 194:11 215:5,6 268:22
 Substitution 150:25 268:13,16
 subtleties 157:5
 subtract 232:15
 subtracting 186:2,4
 sufficient 149:17 201:17 313:8
 sufficiently 186:10
 suggest 257:2 258:9 292:25
 suggested 229:21
 suggesting 163:10 189:21 196:19 212:20 223:14 252:10 255:12 323:22
 suggestion 282:11
 suit 222:4
 sum 147:9
 summarize 217:10
 summarized 132:20
 summary 135:6
 Sunday 292:23
 supplement 268:22
 supplemental 193:12
 support 191:23 200:25
 suppose 131:7 226:14,23 269:2
 supposed 151:3,3,8
 surcharge 161:5 211:12
 surprise 216:24 247:19 312:24,25,25
 surprised 313:4
 surrebuttal 224:15
 switch 154:22 157:3 174:19,20 288:3
 switching 230:25 304:2
 sworn 127:1,7 181:21 182:5 259:17 260:4 298:4,14
 system 153:21

T

T-u-r-n-e-r 259:21
 table 209:21 250:8
 talked 208:1 256:20,22 294:24
 talks 310:16
 Tardiff 159:3 160:3,9,10,11
 Tardiff's 159:6,23,23
 target 161:22
 tariff 147:2 236:11,12,19
 tariffed 305:6 309:18
 Taylor 158:7 159:1,2,22 160:8,9,16 222:21 223:8
 technical 138:11 309:10 314:24
 technique 132:12
 technologies 175:10
 teeny 190:7,7
 Teitzel 124:4,13,15,24 125:2 126:4 183:6,9 227:1 257:11,13,16,17 259:7 286:2
 Teitzel's 183:14
 Telecom 210:8
 telecommunications 198:20 221:18 247:15,16 293:12 300:14 311:3
 Telephone 179:19 206:4 268:15
 telephony 150:24 175:11,12 178:2,7 268:1
 tells 330:21
 tempted 154:10
 ten 171:11 216:10 217:7 227:7 273:18
 tender 184:23 260:20
 tendered 299:21
 tends 203:24 205:8 215:3 220:3,4
 tentative 175:10

term 130:16,19 132:12 133:9 136:23 141:18 148:23 165:19,20 174:23 175:4,5 190:16 204:20 229:18,20,23 230:3,14 231:15 250:20
 terminate 196:11 197:7,11
 terminated 235:8,19
 terminating 199:3,10,15,16,20 237:12,22 327:3 333:15
 termination 197:4
 terms 130:22,24 141:1,4,16,25 143:2 144:9 148:22 199:15 226:21 233:13 240:8 246:1 265:15,17 266:3 267:7 274:25 287:1 295:18
 territory 288:14
 test 143:20 144:3 146:13 148:16,22 149:4,9 150:6,20 151:1,21 152:7,9 155:12 213:18 217:13 221:1,22,22 239:17 240:21,23,25 241:6,9,13,21 242:7 261:17 262:5 269:15 286:18 288:21
 tested 131:5,6 142:4 148:14
 testified 159:3 163:16 203:24 205:7,16 242:9 245:11 250:19 277:25 280:13,19 281:4 294:5 300:5 323:10 332:11
 testify 127:7 182:5 190:4 260:4 268:4 298:14 330:7
 testifying 257:12
 Testing 152:3
 tests 131:12,13 132:20 149:21 173:8 179:18
 text 201:20,20
 Thanks 193:6
 themselves 223:9 267:2
 theory 161:13,15,23 308:12
 there's 136:13 140:5 149:1 159:17 170:17 177:1 188:6 189:24 194:13 209:16 230:19 232:22 248:15 257:10 265:14,21 269:3 279:7,14 284:15 295:5 303:6 304:17 306:15 322:20 328:24 333:21
 thereafter 138:17 139:10 169:20
 therefore 173:3 178:5 218:16 252:5
 thereof 227:20
 Thereupon 127:6 182:4 260:3 298:13
 They'll 193:3
 thinking 308:6
 third 178:2 189:1 190:5 193:19 219:22 229:15
 Thomas 259:20 260:2
 though 154:5 157:11 160:12 168:20 203:18 216:25 256:7 325:14
 thousand 278:5,7 332:20,21
 three 133:18,21 135:7,11,19 141:12,13,20,21 143:24 213:14,16,22 221:18,19 226:10
 threshold 143:3
 threw 132:16
 thrive 293:2,9
 throughout 186:12 312:12 314:9
 throughs 334:6
 throw 142:3 329:19
 timeframe 216:16
 Timothy 159:3
 tire 230:8,17
 tires 230:8,9,17 231:10
 title 159:17 297:3
 today 129:24 164:15 172:14 184:16 232:2,6 256:13 258:3 265:8,14,

24,25 267:6 269:12 291:5 299:11
 301:4 310:22 311:21 312:13 314:9
 315:5 316:9,10,25 329:2 330:7
 336:13
 together 125:18 131:9 214:11
 toilet 253:11
 Tom 259:14
 tomorrow 336:16,17
 took 137:4,5,9,10 293:20
 top 135:4,5 149:7 160:17 272:7
 topic 210:23 223:21
 TOT 147:7,9
 total 147:8,14 153:24 262:19 265:
 7 330:17 332:8
 totality 189:8
 touch 244:22 245:1,20
 tough 249:23
 towards 160:5 279:7,14
 track 187:15 214:13 217:4 283:25
 288:13
 tracked 285:6 327:23 329:7,13
 tracking 188:1
 traffic 197:8 198:8,16,20 199:4,6,
 10,16,16,20 200:1,2,4 231:2,2 327:
 1 331:1,18 332:10,12
 transcript 192:23 193:3,5 244:25
 272:6 277:4
 translated 189:7
 transport 230:24 304:3
 travel 329:4 330:8 332:12,16
 travels 331:19
 trend 133:10,14,15,19,19,20 135:
 16 136:6,6 139:24 140:2 144:7,9
 145:20,25 146:15,23 147:16 149:
 11 150:22 151:2,3,8,9,15,18 152:8,
 15,16,23 153:1,6,8,11,12,20
 trends 132:14,16 135:24
 fried 152:8 166:15 217:14
 Trincherro's 173:5 251:3
 trouble 263:14
 troubles 311:9
 true 129:11 135:12 137:1,2,24 138:
 1,2 139:7 140:1 141:11 144:3 147:
 22 153:24 154:1,3,6 155:11 157:1
 162:1,9 165:14 184:19 196:15 197:
 5,6 201:4,11,15 209:19 210:24
 214:16 227:23 228:16 229:1 234:
 24 237:13 248:21 278:14 285:9
 286:18 290:19 291:15 293:4 299:
 10,14 303:9 309:14 320:12 326:17,
 22 328:4 333:14,17
 truly 143:15
 try 134:4 176:20 179:13 182:16
 185:17 217:15 220:9 255:14,16
 270:22 274:2,14 312:3 331:12 332:
 6
 trying 135:23 140:10 146:2 164:
 12 169:9,22 202:14 212:3 218:8,9
 243:14 245:13 262:11 274:22,23
 301:13 302:11 313:25 317:12,15
 332:4,17
 TSLRIC 251:22 305:8
 turn 124:17 148:4 153:22 154:16
 157:17 159:2,13 168:3 193:19 215:
 15 229:4 273:21 279:1
 turned 140:19 287:5
 Turner 256:3 259:12,14,20,24
 260:2,8,20 261:2 263:16 270:4
 271:21 273:15 276:18 277:8,14
 278:24 280:16,19,21 281:4 282:1,
 6 284:2 286:1 287:23 289:11 290:

1,16 294:5 296:11,21 298:1
 Turner's 289:13
 turning 131:23 132:1,2 135:17
 136:13 140:7,10,11,15,19 145:24
 146:1,2 148:18 170:8 223:21
 turns 140:13,15
 twenty 287:10
 twenty-five 320:13 321:10,17
 two 128:11 131:7 134:13 135:19
 141:21 142:16 144:1,8,17 145:11
 146:19 147:9 150:9,9,11,15 155:
 21 164:6 165:23 167:7 173:17 187:
 18 192:10 219:23 220:2 226:10
 234:21 240:6,6 244:10 273:5 280:
 7 281:16 282:19 296:5 308:6 310:
 4 322:6,7
 two-fold 297:15
 two-thirds 276:19 285:12,15,18
 286:7
 type 152:7 187:1 226:22 270:25
 293:8
 types 186:24 189:19
 typical 177:5
 typically 161:21 199:22
 typographical 299:5,8

U

U-N-E 303:12
 U.S 242:1 262:24 287:13
 ultimately 174:16
 Unaccompanied 162:5
 unbundle 300:18
 unbundled 300:21,22 301:2 304:
 3 315:11
 unclear 195:8 201:10 310:15 316:
 4
 uncommon 198:21,22
 unconfidential 194:24 195:1,3
 under 124:4 137:11,19 147:7 148:
 11 174:17 236:2 268:15 278:16
 300:19 303:11 304:13,20 305:11
 316:10 325:21
 underlining 279:7,15
 underlying 132:13 135:10,13 261:
 8
 underneath 159:17
 understand 137:11 140:4 166:12
 169:9,22 170:25 204:4 217:11 233:
 25 257:7 265:12 276:7 287:24 306:
 8,19 308:7 314:24 319:7,20 324:
 13 336:6
 understanding 126:12,15 159:12
 161:4 192:22 211:8,22,24 228:1
 231:21 232:6,8 233:7,21 238:25
 250:1 303:20 321:20 328:3
 Understood 190:8 276:9
 undifferentiated 187:13
 unduly 237:25
 UNE 303:11,12,21 304:4
 UNES 303:18 304:1 333:13
 uniform 233:22
 unilaterally 215:1
 unit 147:2
 United 169:12 171:25 179:19 236:
 5,10,14,17,18,23,24 237:11,11 256:
 14,18 258:5,25 259:2
 units 242:1
 unlike 287:13
 unlikely 173:19 199:11
 unpredictable 157:2
 until 126:4 138:18 167:2 210:13
 219:15 223:16 224:17

unusual 161:8
 up 126:3 134:5 138:22,22 140:6
 141:7 142:11 143:2,15 145:17 155:
 18,20,23 156:16 169:1 170:25 179:
 8 181:10,16 192:14,15 214:12 219:
 15 226:9 234:15,20 237:4 243:12
 244:1 250:13,14 255:23 256:3 267:
 20 268:19 270:23,25 292:2 293:22
 296:4 298:2 329:16 336:10
 upper 218:1 279:3
 upwards 261:18
 usage 125:4
 user 188:4 236:24 237:17,18,19
 uses 251:19
 using 132:14 137:12 145:25 179:
 17 199:24 233:18 262:22 269:1,5
 274:4 277:5 281:11 302:5 304:3
 307:13 320:20 323:7
 UT 134:18 262:24 263:2 272:20
 273:2,25 283:19 284:22 286:6,16
 288:16
 Utility 228:11
 utilized 281:5

V

vague 210:16
 valid 172:13 243:17
 valuable 274:25
 value 136:25,25 137:1,5,9,10 143:
 7,13 157:21 158:3 169:15 170:9
 230:5 253:14
 values 143:9 188:19 275:18
 variability 147:22
 variable 136:3 137:4,9,12,20 138:
 3,7 140:24 143:6 144:9 147:1 148:
 14,19 152:2,2 153:19,20 224:1,10,
 24 272:16,17
 variables 131:9 136:22,23,24 137:
 4 141:19 146:19 149:11,15 151:16
 152:17 169:16,17 270:23,25 271:7
 variety 328:19,24
 various 125:8 178:7 189:19 218:
 21 231:3 237:6 240:1 270:25
 vary 147:3,15,19
 verbal 135:5
 verbatim 246:22
 verify 282:13 290:24
 Verizon 281:9,11 283:6 285:10,17
 286:5,10 287:18
 Verizon's 281:6 285:6 286:3,6
 288:14
 version 126:15,16
 versions 128:7
 versus 232:19 236:15 237:17 256:
 21 267:23 329:9 331:2,19
 vertical 144:18
 via 197:8 304:1
 view 142:2,25 175:9 332:6
 views 166:17
 vigorous 265:22
 visual 140:9
 voice 268:18 269:25
 volume 168:15 189:11 197:18 240:
 5 261:18 327:1,8,11,12 332:11,15,
 18,19
 volumes 154:13 155:18,20,23,24,
 24 225:23,25 226:4 261:23 262:5

W

waiting 268:18
 Wall 221:9 253:2,6,7,9,12,13,20,
 21,24 254:3,9,13,22,23

wanted 126:17 129:5 168:7 179:1
 188:20 220:9 227:21 228:15 232:
 21 280:14 294:13 314:22 336:13
 wants 254:13
 Washington 184:3 321:25
 wastes 295:11
 way 132:14 133:16 138:6,8 139:14,
 23 143:4 144:10 145:20 151:22
 152:22 153:6 161:14 166:4 169:17
 170:2,5,25 175:2,15 178:6 180:2
 188:18 197:11 223:18 230:14 236:
 19 242:19,24 243:24 252:16 269:5
 274:13 275:14 276:19 282:16,22
 284:9 305:5 308:19 314:8 322:24
 326:4 327:4,23 328:8 332:1 333:
 10
 ways 157:2 189:18 214:6 320:1,5
 328:24
 weapons 177:18
 weather 270:12
 WEDNESDAY 124:1
 week 147:3 292:21
 weighted 125:17,20
 Weirich 124:17,19,20,23 125:21
 168:25 169:1,3,6,7 171:23 212:18,
 21 213:7,9,10 215:18,21,23 216:14,
 22 227:11,13 256:4,8 259:14,22,23
 260:7,11,17,20 267:12,15 279:21,
 25 280:11 281:24 283:22 293:25
 294:1,4 296:2,12,19 333:23
 Weirich's 239:3 243:13 281:3
 West 262:24 287:13
 West's 242:1
 whatever 156:22 172:6 234:12
 266:4 274:12 285:2 288:7 316:15
 whatsoever 293:8
 whenever 220:18
 Whereas 226:11 246:4 262:4
 whether 140:11 142:19 143:5 151:
 22 153:7 156:17 162:2 163:7,12
 164:17 166:15 171:23 172:4 176:5,
 9,11,15 177:7 179:1,16,17,18 180:
 16 183:13 186:22 188:25 195:8
 201:7 209:11 212:6,7 217:6 219:
 20 221:21 225:19 226:16 227:3
 228:17 233:9 235:21 249:8 253:22
 255:4 256:13 258:4 261:14 266:25
 268:12,21 274:5 301:1,1 302:7
 318:1 319:6 324:21 329:15 334:13
 335:1
 white 192:5
 whoever 156:21
 whole 139:22 147:19 151:9 152:
 16 162:18 163:14 164:3,18 177:2
 225:16 228:18,25 240:16 246:12
 247:6,12 251:5,11,15,17,25 252:5,
 15,18,22 255:5 265:17 295:6
 wholesale 302:3 307:20 308:3
 wholesaler 308:8
 will 124:17 143:18 164:10 166:2
 167:1 169:18 174:21 175:24 176:
 21 177:7 186:8,15,19 187:1 188:7,
 23,25 189:21 190:3,5,6,16 191:8,
 12,23 192:25 193:4,4 194:18 196:
 5 201:21 204:5,14 205:17 213:2
 220:24 234:3 245:17 253:14 256:7
 259:4,6 261:9 268:20 280:22 282:
 1 284:23 299:20 304:21 314:5 315:
 5,15,16,17 316:1,6,7,11,21 318:10
 319:21 320:5 321:11 325:1 329:18
 330:6 332:22

willing 194:15 283:13 284:3 319:1,15,23
win 155:24 297:13
wire 150:25 267:9
wireless 175:12 269:25
wish 127:21
withdraw 245:17 263:6 313:22 317:5
withdrawn 322:2
within 143:12 187:14 222:19,20 223:12 231:1 264:6 266:2 282:13, 18 288:10 304:18
without 138:21 196:16 197:12 218:20 275:1,14 295:4,4,8 326:18
witness's 205:3 329:20
witnesses 181:12
wonder 277:4
wonderful 171:12
wondering 195:13
word 148:16 173:7 323:7
wording 207:7
words 138:20 155:2 211:9 213:23 230:13 242:12 248:17 252:9 302:8 308:17,21 313:25 317:13
work 160:4 206:2
worked 172:6
working 128:7 129:1 155:22
world 170:23
WorldCom 141:3 156:21 157:8 168:3 182:20 186:17 193:11 202:20,23 203:14 210:18,24 231:16,21 232:15 233:7,17 234:25 235:2 236:13 289:13
WorldCom's 191:2,17 231:17 232:11,21 233:13 235:8 324:25
worse 168:2
written 318:2,7

X

XXXX 191:19
 XXXXXXXXXXXXXXXXXXXX
XXXX 194:1
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXXXXXX 193:22
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXX 193:23,24,25

Y

year 125:10,12,15 126:1 213:18,19, 19 217:13 220:10 221:1,1 240:22, 23,25 241:6,9,13,21 261:17 262:5 263:5,8,12,22 269:14,15 280:12 286:18,20,25 288:10,21
years 161:18 216:11 217:7 221:19, 19 223:19 227:7 273:18 310:3,4, 25
yellow 135:7 144:16,18 145:6 168:6 191:25 192:2,2,6,7,9 194:11
yesterday 124:4,14 125:9 126:11, 11 183:4,5 314:9
yield 160:19
yourself 276:12 289:5

1
2
3
4
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REPORTER'S CERTIFICATE

STATE OF OREGON)
)
County of Polk)

I, SUSAN M. PRICE, Court Reporter and Notary Public for the State of Oregon, do hereby certify:

That the foregoing transcript was taken down by means of stenotype at the time and place therein named, and thereafter transcribed by means of computer aided transcription, and that the foregoing transcript contains a full, true and verbatim record of the said proceedings, pages 124 - 336.

I further certify that I have no interest in the event of the action.

WITNESS my hand this 13th day of June, 2001.



Susan M. Price

Susan M. Price
Court Reporter

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UT 125

In the Matter of the Application of)
QWEST CORPORATION for an Increase in)
Revenues.)

DATE: May 31, 2001

TIME: 9:30 a.m.

PLACE: Agriculture Building, Basement
Large Hearing Room
635 Capitol Street NE
Salem, Oregon 97301-2551

BEFORE: Ruth Crowley
Administrative Law Judge

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Public Utility Commission of Oregon
Administrative Hearings Division

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APPEARANCES

- Ms. Ruth Crowley, Administrative Law Judge;
- Ms. Ann Hopfenbeck, WorldCom;
- Mr. Jason Jones, PUC Staff;
- Mr. Robert Manifold, AARP;
- Mr. Lawrence Reichman, Qwest;
- Mr. Mark Trincherro, AT&T;
- Mr. Mike Weirich, PUC Staff.

--ooOoo--

I N D E X (cont.)

2	<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
3	<u>FOR PUC STAFF:</u>		
	Thomas Turner	Direct by Mr. Weirich	260
4		Cross by Mr. Reichman	261
		Cross by Mr. Trincherro	290
5		Cross by Mr. Manifold	289
		Redirect by Mr. Weirich	294
6		Recross by Mr. Reichman	296
7	<u>FOR AT&T:</u>		
	Arlene Starr	Direct by Mr. Trincherro	298
8		Cross by Mr. Reichman	300
		Redirect by Mr. Trincherro	334
9	<u>FOR QWEST:</u>		
10	Scott McIntyre	Direct by Mr. Reichman	337
		Cross by Mr. Trincherro	342
11		Redirect by Mr. Reichman	379
		Recross by Mr. Trincherro	384
12	<u>FOR WORLDCOM:</u>		
13	Anthony DiTirro	Direct by Ms. Hopfenbeck	387
		Cross by Mr. Reichman	388
14		Redirect by Ms. Hopfenbeck	404
		Recross by Mr. Reichman	406
15	<u>FOR PUC STAFF:</u>		
16	Lance Ball	Direct by Mr. Jones	414
		Cross by Mr. Reichman	415
17		Cross by Mr. Manifold	437
		Cross by Mr. Trincherro	440
18		Redirect by Mr. Jones	443
		Recross by Mr. Reichman	446
19	Cynthia Van Landuyt	Direct by Mr. Weirich	452
20		Cross by Mr. Reichman	453
		Cross by Mr. Trincherro	470
21		Redirect by Mr. Weirich	473
		Recross by Mr. Reichman	475
22	<u>FOR AARP:</u>		
23	Dr. Pamela Cameron	Direct by Mr. Manifold	476
		Cross by Mr. Reichman	479
24		Cross by Mr. Weirich	498
		Cross by Mr. Trincherro	503
25		Redirect by Mr. Manifold	504

E X H I B I T S

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 201	Teitzel direct testimony -----	52
Qwest 202	(Teitzel) Basic Exchange Pricing Summary Residential (Confidential) -----	52
Qwest 203	(Teitzel) Basic Exchange Pricing Summary Business (Confidential) -----	52
Qwest 204	(Teitzel) Extended Area Service (Confidential) -----	52
Qwest 205	(Teitzel) Centrex Plus Services (Confidential) -----	52
Qwest 206	(Teitzel) Vertical Features/services (Confidential) -----	52
Qwest 207	(Teitzel) Listing Services (Confidential) --	52
Qwest 208	(Teitzel) IntaLATA Long Distance Services (Confidential) -----	52
Qwest 209	McIntyre Direct Testimony -----	342
Qwest 210	(McIntyre) Private Line Diagram -----	342
Qwest 211	(McIntyre) Oregon Analog Private Line Proposal (Confidential) -----	342
Qwest 212	(McIntyre) Oregon Digital Data Proposal (Confidential)-----	342
Qwest 213	(McIntyre) DS1 Service Proposal (Confidential) -----	342
Qwest 214	(McIntyre) Switched Access Network Diagram -	342
Qwest 215	(McIntyre) Current Switched Access Price Structure -----	342
Qwest 216	(McIntyre) Proposed Switched Access Price Structure -----	342
Qwest 217	(McIntyre) Oregon Switched Access Proposal -	342
Qwest 218	Brigham Direct Testimony -----	6

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 219	(Brigham) Summary of Selected Rate Design Proposals (Confidential) -----	6
Qwest 220	(Brigham) Deaveraged Loop Zones Qwest-Oregon -	6
Qwest 221	(Brigham) Oregon Residence Access Line NRC Study (Confidential) -----	6
Qwest 222	Teitzel Rebuttal Testimony -----	52
Qwest 223	(Teitzel) Verizon responses to Qwest data requests -----	52
Qwest 224	(Teitzel) Staff responses to Qwest data request 11 -----	52
Qwest 225	(Teitzel) Metronet v. Qwest, granting Qwest's motion for summary judgment -----	52
Qwest 226	Banerjee Rebuttal Testimony -----	129
Qwest 227	(Banerjee) Qualifications -----	129
Qwest 228	Bailey Rebuttal Testimony -----	536
Qwest 229	McIntyre Rebuttal Testimony -----	342
Qwest 230	Brigham Rebuttal Testimony -----	6
Qwest 231	(Brigham) New Mexico Proceedings transcript -	6
Qwest 232	Supplemental Responses to Qwest's Second Set Data Requests (Confidential) -----	194
Qwest 233	Draft from UT85 of Toll, Access, Custom Calling Rates -----	279
Qwest 234	Article by Armando Levy - Semi-Parametrics Estimates -----	281
Qwest 235	WorldCom's Responses to Qwest's first set of Data Requests (Confidential) -----	401
Qwest 236	WorldCom's Responses to Qwest's third set of Data Requests (Confidential) -----	401

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 237	WorldCom's Supplemental Responses to Qwest's third set of Data Requests (Confidential)	-- 401
Qwest 238	Proposed Amendments to House Bill 2659	----- 538
Qwest 239	Request 01-003 to NWPA	----- 726
Qwest 240	Request 03-033 to U.S. West	----- 735
Qwest 241	Request 03-032 to U.S. West	----- 775
--ooOoo--		
Staff 1	Ball Direct Testimony	----- 415
Staff 2	(Ball) Qualifications, Recommended Rate Spread by Service, by Customer Class, Comparison of Qwest and Staff Rate Spread by Major Service Category	----- 415
Staff 3	Van Landuyt Direct Testimony	----- 453
Staff 4	(Van Landuyt) Qualifications; Switched Access Service	----- 453
Staff 5	(Van Landuyt) Switched Access Rate Design (Confidential)	----- 453
Staff 6	(Van Landuyt) Private Line Service	----- 453
Staff 7	(Van Landuyt) Private Line Rate Design (Confidential)	----- 453
Staff 8	Turner Direct Testimony	----- 260
Staff 9	(Turner) Qualifications; Message Toll Service Rates Exhibits (Tables, FCC Study)	----- 260
Staff 10	(Turner) Toll Revenue and Demand Analysis (Confidential)	----- 260
Staff 11	(Turner) Access Imputation Analysis (Confidential)	----- 260
Staff 12	(Turner) Price Elasticity Study (Confidential)	----- 260

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Staff 13	Sloan Direct Testimony -----	414
Staff 14	(Sloan) Non-confidential exhibits in support of direct, pp. 1-12 -----	414
Staff 15	(Sloan) Pages 2-12, exhibits to Sloan testimony issues (Confidential) -----	414
Staff 16	Stanage Direct Testimony (EAS; Advanced services, business and residential local exchange access; residential NRC) -----	516
Staff 17	(Stanage) Qualifications -----	506
Staff 18	(Stanage) Non-confidential exhibits in support of direct, pp. 1-8 -----	506
Staff 19	(Stanage) Exhibits in support of direct (Confidential) -----	506
Staff 20	Turner Rebuttal Testimony -----	260
Staff 21	(Turner) Status Report in UM 962 Wholesale Discounts -----	260
Staff 22	Two pages, CALLS Analysis -----	500
--ooOoo--		
AARP 1	Cameron Direct Testimony -----	479
AARP 2	(Cameron) Qualifications -----	479
AARP 3	Cameron Rebuttal Testimony -----	479
--ooOoo--		
ATG 1	Cornell Direct Testimony -----	766
ATG 2	(Cornell) Qualifications -----	766
ATG 3	ATG's Request 03-019 to Qwest -----	654
ATG 4	(Not offered)	
ATG 5	Centrex Prime Pricing (Confidential) -----	664

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
ATG 6	Excerpt of Dennis Hruska Deposition, Metronet v. U.S. West -----	667
ATG 7	Centrex Prime Issues (Confidential) -----	667
ATG 8	Small Business Basic Exchange Service, Key Beliefs and assumptions - Tedd Bell (Confidential)-----	679
ATG 9	High level impacts of ONA resale from Judette Hemachandra to Mark Reiger (Confidential) --	672
ATG 10	Fifteenth Supplemental Order, Docket UT-950200 -----	683
ATG 11	ATG's Request 02-014 to Qwest -----	692
ATG 12	ATG's Request 02-004S1 to Qwest -----	692
	--ooOoo--	
AT&T 1	Starr Direct Testimony -----	299
AT&T 1	Starr Direct Testimony (Confidential) -----	299
AT&T 2	(Starr) Response to Data Request 003 -----	299
AT&T 3	(Starr) Comparison of Qwest intrastate rates to FCC interstate rates -----	299
AT&T 4	(Starr) Response to Data Request 006,007 ---	299
AT&T 5	(Starr) Response to Data Request 002 -----	299
AT&T 6	(Starr) Response to Data Request 001 -----	299
AT&T 7	(Starr) Qwest proposed Oregon intrastate rates, percent markup over UM 844 -----	299
AT&T 8	(Starr) Present Market Structure -----	299
AT&T 9	Data Request Response 02-025 -----	101
AT&T 10	Draft Proposed Amendments HB 2659 -----	101
AT&T 11	Data Request Response 04-026 (Confidential)	167

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
AT&T 12	Data Request Response 04-027 (Confidential)	167
AT&T 13	Data Request Response 04-028 -----	167
AT&T 14	Data Request Response 04-037, Article by Rappaport -----	167
AT&T 15	Qwest's Form 10Q -----	353
AT&T 16	Data Request Response 04-040 -----	376
--ooOoo--		
AT-W 1	Selwyn Direct Testimony -----	185
AT-W 1	Selwyn Direct Testimony (Confidential) -----	185
AT-W 2	(Selwyn) Qualifications -----	185
AT-W 3	(Selwyn) Percent Change in California Residence and Business MTS Rates -----	185
AT-W 4	(Selwyn) Percent Change in Residence MTS per Qwest's Proposal -----	185
AT-W 5	(Selwyn) Revised Toll Imputation Calculation (Confidential) -----	185
--ooOoo--		
NWPA 1	Wood Direct Testimony -----	710
NWPA 1	Wood Direct Testimony (Confidential) -----	710
NWPA 2	(Wood) Qualifications -----	710
NWPA 3	(Wood) Proposed PAL Rates (Confidential) -----	710
NWPA 4	(Wood) Alternative Proposed PAL Rates (Confidential) -----	710
NWPA 5	Response to Data Request 03-008 -----	574
NWPA 6	Response to Data Request 03-011 -----	581
NWPA 7	Response to Data Request 04-039 -----	582

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
NWPA 8	Response to Data Request 04-037	----- 588
NWPA 9	Response to Data Request 04-040	----- 595
NWPA 10	Response to Data Request 05-053	----- 596
NWPA 11	Response to Data Request 05-050	----- 618
NWPA 12	Response to Data Request 03-035	----- 623
NWPA 13	Response to Data Request 03-021 (Confidential)-----	626
NWPA 14	Response to Data Request 03-030	----- 626
NWPA 15	Response to Data Request 04-036	----- 627

--ooOoo--

WorldCom 1	DiTirro Direct Testimony	----- 388
WorldCom 2	Selwyn Direct Testimony	----- 19
WorldCom 3	(Not admitted)	
WorldCom 4	Response to Data Request 03-022	----- 96

--ooOoo--

1 SALEM, OREGON, THURSDAY, MAY 31, 2001

2

3 ALJ CROWLEY: Let's go back on the record. This
4 is the third day of the Phase II hearing in UT 125.

5 Are there any preliminary matters before we begin
6 with Mr. McIntyre? Good. Mr. Reichman?

7 MR. REICHMAN: If I could have one minute,
8 please?

9 ALJ CROWLEY: Sure. Would you stand please, Mr.
10 McIntyre. Raise your right hand.

11 (Witness sworn by the Administrative Law Judge)

12 ALJ CROWLEY: Thank you. Would you be seated.
13 And state and spell your name for the record.

14 THE WITNESS: My name is Scott A. McIntyre. Last
15 name is spelled M-c I-n-t-y-r-e.

16 ALJ CROWLEY: Thank you.

17 MR. REICHMAN: Your Honor, before I start with
18 Mr. McIntyre, he's going to have some corrections to his
19 testimony. I thought it would be quicker if I pass that
20 out.

21 ALJ CROWLEY: Great.

22 --ooOoo--

23 SCOTT A. McINTYRE,

24 Thereupon called as a witness on behalf of Qwest, first
25 duly sworn, was examined and did testify as follows:

1 DIRECT EXAMINATION

2 BY MR. REICHMAN:

3 Q Mr. McIntyre, good morning.

4 A Good morning.

5 Q Do you have in front of you Exhibit Qwest 209,
6 which is your direct testimony?

7 A Yes, I do.

8 Q And does that have attached to it Exhibits Qwest
9 210 through 217?

10 A Yes.

11 Q And do you also have in front of you Exhibit
12 Qwest 229, which is your rebuttal testimony?

13 A Yes.

14 Q Are there any corrections you wish to make to
15 your testimony or exhibits?16 A Yes. In my direct testimony on page 33, line 21,
17 I have one word to change. The second sentence in that --
18 on that line says, "I have seen no evidence that carriers
19 pass these savings along."20 I would like that to say, "I have seen limited
21 evidence that carriers pass these savings along."22 Q Excuse me. Mr. McIntyre, did you say page 33 of
23 your direct testimony?

24 A Yes.

25 Q Okay. We may be working from different versions.

1 What is the question that that's responding to?

2 A The question is, "Will reductions in switched
3 access prices result in lowered long distance charges from
4 carriers?"

5 Q Okay.

6 MR. MANIFOLD: That matches my copy.

7 MR. REICHMAN: Well, it doesn't match my copy.

8 On my copy, which I think is the filed version, that
9 question appeared on line 19 on page 33.

10 ALJ CROWLEY: I have it on 32, line 21.

11 Q BY MR. REICHMAN: And you want to change the word
12 "no" to "limited" evidence?

13 A Yes.

14 Q In that sentence?

15 A Yes.

16 Q I apologize for the confusion. Are there any
17 other changes that you wish to make to Exhibit 209?

18 A No.

19 Q Okay. Now, we passed out some handwritten
20 corrections to Exhibit 229 affecting pages 20, 21, 22, and
21 23.

22 A Before we go there, there is a correction on one
23 of the attachments on Exhibit 217 which is attached to my
24 direct testimony.

25 Q Okay.

1 A Do you want to do that first?

2 Q Let's do that first. What I've handed out on
3 yellow paper is a substitute version of Exhibit 217. It's
4 in the same format. It's just printed a little
5 differently, but it contains the same information with
6 minor corrections.

7 Mr. McIntyre, could you describe the corrections
8 in this exhibit first?

9 A Yes. On page -- well, what I have as page 2 of
10 that document Exhibit 217 --

11 Q The original exhibit?

12 A The original exhibit. Under the -- at the bottom
13 of that exhibit, the carrier common line charge portion of
14 that, the current revenue -- the last three columns to the
15 right, the current revenues, the proposed revenues and the
16 revenue impact of numbers under carrier common line were
17 inadvertently copied from the local switching numbers which
18 are right above it.

19 So the revenue numbers are wrong in that
20 exhibit. The totals are correct, the bottom line totals.

21 Q Where it says "total recurring"?

22 A Where it says "total recurring", those numbers
23 are correct. But the carrier common line numbers right
24 above them are incorrect.

25 Q Okay. And does what we've distributed today as

1 substitute Exhibit 217 correct the figures for the carrier
2 common line?

3 A Yes. It shows the accurate current revenue, the
4 proposed revenue, which is 0 under Qwest's proposal, and
5 the revenue effect.

6 Q And, again, the total of recurring figures on the
7 substitute exhibit are the same as those on the originally
8 filed exhibit?

9 A That's correct.

10 Q Okay. And what we've also handed out are some
11 corrections to four pages of your rebuttal testimony,
12 Exhibit Qwest 229. Could you explain the basis of why you
13 made these changes?

14 A Yes. This was rebuttal testimony, which I relied
15 upon numbers that were provided by in this case Dr. Selwyn
16 and also by Ms. Starr, who I believe used these numbers as
17 a result of numbers filed by Qwest previously.

18 So when Qwest made some changes to these average
19 rates, when Mr. Teitzel made some changes to this,
20 subsequently, Dr. Selwyn at least, made some changes on his
21 testimony. And then I have reflected the changes in my
22 testimony as a result of those changes.

23 Mostly it has to do with the average -- overall
24 average rate per minute and then some margin analysis,
25 dividing one number by another, which changes the

1 percentages that resulted from those changes in those
2 numbers.

3 Q Other than changing the specific numbers, do
4 these changes affect your conclusions in your rebuttal
5 testimony?

6 A No.

7 Q Okay. Thank you for those corrections. Are the
8 answers to the questions in your direct testimony and
9 rebuttal testimony as corrected true and correct?

10 A Yes.

11 MR. REICHMAN: Your Honor, we would offer at this
12 time exhibits Qwest 209, 210, 211, 212, 213, 214, 215, 216,
13 217, and 229 as corrected by Mr. McIntyre.

14 ALJ CROWLEY: Nobody filed objections to those,
15 so those are admitted.

16 MR. REICHMAN: Thank you. And with that, Mr.
17 McIntyre is available for cross examination.

18 ALJ CROWLEY: Thank you. AT&T and WorldCom?
19 AT&T looks like lead on this.

20 MR. TRINCHERO: Yes. Thank you, Your Honor.

21 --ooOoo--

22 CROSS EXAMINATION

23 BY MR. TRINCHERO:

24 Q Good morning, Mr. McIntyre.

25 A Good morning.

1 Q If you could turn in your rebuttal testimony to
2 pages 23 and 24.

3 A Yes, I have that.

4 Q Starting near the bottom of page 23, line 18,
5 you're asked a question about Dr. Selwyn's recommendation
6 that a stimulation factor should be added with respect to
7 the company's proposed switched access revenue reductions.

8 Do you see that?

9 A Yes.

10 Q And you've stated that you disagree with that
11 recommendation; is that correct?

12 A Yes.

13 Q Turning to the top of page 24, line 3, one of the
14 reasons that you give for not using a stimulation factor is
15 the fact that it is hard to predict how competing
16 interexchange carriers might react with respect to their
17 existing toll rates and whether or not they would drop
18 those toll rates; is that correct?

19 A Yes.

20 Q Were you in the hearing room yesterday when Ms.
21 Starr testified?

22 A Yes.

23 Q And did you hear the line of cross examination
24 from Mr. Reichman wherein he asked whether or not AT&T
25 would flow through to their toll rates cost savings on

1 access as a result of this case?

2 A Yes.

3 Q Given the fact that one of Qwest's largest
4 competitors and Qwest would both be dropping their toll
5 rates as a result of this case, isn't it true that it
6 becomes somewhat easier to predict how carriers are going
7 to react?

8 A Somewhat, yes.

9 Q Wouldn't that suggest that perhaps switched
10 access usage would be stimulated?

11 A Oh, it suggests it, but it really doesn't predict
12 it for a couple of key reasons. One is that Ms. Starr's
13 intentions aside, I think it's going to be very difficult
14 for the carriers to really pass those reductions on. It's
15 going to be hard to know what's going to happen as a result
16 of that.

17 For example, if the access reductions were to
18 affect a carrier, say AT&T, to the impact of \$10 million,
19 they might choose to reduce rates to offset that \$10
20 million. But since they are strong believers in
21 stimulation, they might reduce rates half as far as they
22 think they need to expecting stimulation to make up the
23 difference. If that stimulation doesn't occur, then the
24 revenue flow through doesn't occur.

25 So even if they have good intentions, it might

1 not happen. And it would be difficult with all the pricing
2 plans to know whether, in fact, it did happen. So even if
3 the intentions are right, even if the inputs are right, you
4 still cannot necessarily predict what the outcome of that's
5 going to be.

6 Combine that with the fact that we have other
7 carriers that have not made such assertions and given the
8 fact that Qwest toll reductions are a part of this whole
9 process, while I agree that there in theory could be some
10 stimulation on access, I don't see how you can predict what
11 that -- what the value of that stimulation might be.

12 Q Mr. McIntyre, were you in the hearing room
13 yesterday when Dr. Banerjee testified?

14 A Yes.

15 Q And Dr. Banerjee testified to a number of factors
16 in the toll market that could impact Qwest's share of the
17 toll market; is that an accurate statement?

18 A I recall that.

19 Q For example, the conversion to One Plus
20 presubscription?

21 A Yes.

22 Q And, in fact, the impact of One Plus
23 presubscription was gained in market share by competing
24 interexchange carriers in the intraLATA toll market, isn't
25 that correct?

1 A I recall that.

2 Q Now, when that happens, isn't it true that the
3 amount of switched access that is purchased would
4 increase?

5 A Well, when that one-time event occurred, there
6 was a shift towards switched access. Since then, when
7 that -- after that event occurred, then there has been a
8 leveling off of switched access and it's gone back toward
9 its more normal trending.

10 Q Have you supplied any data for the record that
11 would show that trend that you just mentioned?

12 A Not that I recall.

13 Q In yesterday's hearing Qwest indicated that Dr.
14 Banerjee had been supplied data to do his toll analysis by
15 the company.

16 Did you or anyone else at the company supply Dr.
17 Banerjee with similar access data so that he could do a
18 similar analysis?

19 MR. REICHMAN: I'll object to the question. Dr.
20 Banerjee was specifically responding to testimony on
21 stimulation of toll. He did not address the topic of
22 stimulation of switched access, so there was no reason to
23 provide that to him.

24 MR. TRINCHERO: Your Honor, Dr. Banerjee did a
25 study of impacts on toll. There were impacts on switched

1 access due to some of those same causes cited in Dr.
2 Banerjee's testimony.

3 I am simply trying to understand whether or not
4 Qwest made any attempt to have a study done on switched
5 access based on that data.

6 ALJ CROWLEY: All right. I'm going to note your
7 objection but I'm going to allow the question.

8 THE WITNESS: I did not provide Dr. Banerjee with
9 any information on switched access. And to my knowledge,
10 we did no studies on switched access stimulation.

11 Q BY MR. TRINCHERO: And it is your position, and I
12 take it it is the company's position, that there is no
13 significant switched access stimulation that would come out
14 of these toll decreases in this case or out of the switched
15 access decreases in this case?

16 MR. REICHMAN: Object to the extent that that
17 mischaracterizes Qwest's testimony in this case.

18 MR. TRINCHERO: Well, maybe I can rephrase.

19 ALJ CROWLEY: Please do.

20 Q BY MR. TRINCHERO: What is the company's position
21 on these two items in this case?

22 A Well, first of all, the company's position on
23 stimulation is that this was supposed to be a revenue
24 adjustment based on a point in time.

25 It's my experience that typically that means you

1 take the units at a point in time for a variety of services
2 and rebalance rates to achieve a revenue adjustment. There
3 is always the possibility because these -- there tends to
4 be lag involved, that things change over time. But usually
5 the parties accept the fact that that time has an impact.

6 But the only reasonable way to attempt to make an
7 adjustment on revenues at a point in time with a variety of
8 services, some of which are growing, some of which are
9 declining, some of which are going to have different
10 stimulation impacts, some are going to be repressed, but
11 the only way to do it is take a point in time and make
12 adjustments on the rates to achieve a target revenue.

13 In this case, picking toll out to stimulate seems
14 contrary to what I'm used to as normal procedures. So in
15 that regard, picking one product out seems unfair to me.
16 There are other products involved in this case, for
17 example, private line, which is going to see some
18 increases.

19 Now, analog private line in particular is in
20 decline already. So increasing analog private line more is
21 going to cause more repression and the company certainly is
22 not going to see the revenues theoretically generated by
23 that revenue increase. But that's part of a rebalance.
24 That's what you do. You take a point in time and you
25 rebalance rates to achieve some revenue goal.

1 To pick one product out to stimulate, because
2 everybody agrees there might be some stimulation and all
3 the -- leave the other products out because they're too
4 complicated to calculate the stimulation, doesn't seem
5 right.

6 So fundamentally it seems wrong to stimulate or
7 repress products that are involved in a revenue rebalance.
8 And it certainly seems inappropriate to pick one product
9 out just because there happened to be some studies that
10 people have made years ago.

11 Years ago I studied repression or stimulation on
12 a private line rate changes. And we could find none. It
13 was hard to predict. We would double the rates and it
14 seemingly had no effect. Now, that doesn't mean it didn't.
15 It just means that there were more issues involved and so
16 the ability to predict it was too difficult.

17 So to take one product out because it's
18 relatively easier or more people have studied it just seems
19 inappropriate.

20 And switched access is one of those that there
21 are too many impacts. The results of what other companies
22 do, other parties do, will cause that number to be accurate
23 or inaccurate. So to get an accurate study -- you could
24 study it. But to get an accurate study would seem
25 unlikely.

1 Q Okay. With that explanation, let me go back to
2 my earlier question about the company's position in this
3 case.

4 The company is recommending in this case that no
5 adjustment should be made to account for stimulation in
6 toll; isn't that correct?

7 A I believe -- I'm not the expert on the toll
8 stimulation. Mr. Teitzel would be more appropriate to ask
9 that official question. It's my understanding that we
10 entered this case with a toll adjustment that delivered a
11 revenue.

12 Now, there has been discussions. Since the Staff
13 proposed a toll stimulation number, significant toll
14 stimulation number, the company has gone back and said --
15 and talked about the possibility of other numbers.

16 Whether you call that an official position or not
17 or an acceptable number in the context of discussions that
18 have occurred, I believe our official position still is
19 that toll stimulation is inappropriate because this is
20 supposed to be a point in time adjustment.

21 That does not mean to say that we haven't talked
22 about other numbers or a possible stimulation, but we
23 believe that the point in time adjustment is the accurate
24 way to make such a \$64.2 million reduction in rates.

25 Q And to follow up on that, it's also the company's

1 position that no adjustment should be made in this case to
2 account for stimulation to switched access?

3 A That's correct.

4 Q And I just want to clear something up. In your
5 earlier response you appeared to indicate that at least
6 some parties in this case may be suggesting that
7 stimulation should only be applied to certain services.

8 Isn't it true that Dr. Selwyn has recommended
9 that stimulation be applied to or repression be applied to
10 all services affected by these rate changes?

11 A I know that Dr. Selwyn recommended changes for
12 stimulation impacts on toll and switched access. And I
13 believe he at least implied that there would be some effect
14 on all services. I don't specifically recall, for example,
15 whether he recommended that there be repression, for
16 example, on services that were being increased, such as
17 private line. I just don't recall that detail in his
18 testimony.

19 Q All right. Isn't it true that the company in
20 public documents has expressed its opinion that decreases
21 in switched access rates do stimulate switched access
22 minutes of use?

23 MR. REICHMAN: I object to the question. If he's
24 got a document in mind, I think he should show the witness.

25 ALJ CROWLEY: Do you have any document, Mr.

1 Trincherro?

2 MR. TRINCHERO: I do. This was distributed
3 yesterday. It's AT&T 15. And after distributing them, I
4 was left with one copy.

5 MR. REICHMAN: The witness needs a copy.

6 MR. TRINCHERO: Yes.

7 MR. MANIFOLD: Mark?

8 MR. TRINCHERO: Do you have an extra copy?

9 MR. MANIFOLD: No. But you can borrow it.

10 MR. TRINCHERO: Your Honor, I've handed the
11 witness a copy of what was previously marked for
12 identification as AT&T 15.

13 Q BY MR. TRINCHERO: Mr. McIntyre, I've handed you
14 a copy of Qwest's recently filed 10 Q form.

15 Have you seen this document before?

16 A No, I haven't.

17 Q If I could have you turn to what is marked at the
18 top of the page as page 16 of 32. And the third full
19 paragraph, could you read that to yourself.

20 MR. WEIRICH: Excuse me. What page? What page
21 are we on? I'm sorry.

22 MR. TRINCHERO: It's page 16 of 32 on the
23 right-hand corner.

24 ALJ CROWLEY: The paragraph beginning "switched
25 access"?

1 MR. TRINCHERO: Yes.

2 THE WITNESS: Okay. Yes, I've read that.

3 Q BY MR. TRINCHERO; And is it fair to state that
4 in that paragraph Qwest has stated that a decrease in
5 switched access services revenues is principally
6 attributable to competitive losses and federal access
7 reform would be partially -- was partially offset by
8 increased demand?

9 A Well, it says what it says.

10 Q Very good. Thank you.

11 MR. TRINCHERO: Your Honor, I'd move the
12 admission of AT&T 15.

13 ALJ CROWLEY: Any objections?

14 MR. REICHMAN: No objections.

15 ALJ CROWLEY: It's admitted.

16 Q BY MR. TRINCHERO: Could you turn to pages 12
17 through 14 of your rebuttal testimony.

18 A Yes, I have that.

19 Q In that section of your testimony you discuss
20 switched access bypass and the use of special access
21 services in order to do that; is that correct?

22 A Yes.

23 Q And you've given some examples of how switched
24 access minutes of use could be converted to special access;
25 is that correct?

1 A Well, that's an example of the cost you might
2 derive from carrying toll traffic over a dedicated
3 facility.

4 Q And I wanted to ask you about the toll traffic
5 that would go over such a dedicated facility. Isn't it
6 true that the switched access that can be avoided in using
7 a special access line is originating switched access?

8 A Well, it would be originating. It would also be
9 terminating.

10 Q Isn't it true that only in the instance of 800
11 number calling that that special access line could be used
12 for terminating?

13 A No, I don't believe so. If you had the example
14 of a company that had a PBX, for example, and they had a
15 DS1 connection from their PBX to a carrier, they could
16 route their outgoing or originating traffic over that DS1
17 facility and they could also have their incoming traffic
18 routed over that facility to their PBX, specifically if
19 they were also subscribing to local service or PBX trunking
20 directly from the carrier.

21 Q Let's assume that the local exchange service is
22 purchased from Qwest.

23 A Okay.

24 Q Isn't it true that for terminating toll traffic,
25 the interexchange carrier would still have to purchase

1 terminating switched access from Qwest?

2 A I believe that's possible. But they could also
3 configure their incoming toll traffic to the PBX lead
4 number that would come in over -- particularly interstate
5 traffic or intra -- interLATA traffic that could come in
6 from the carrier over that same DS1 facility.

7 Q I'm sorry. I should have -- I should have
8 qualified my question. We're talking about intraLATA toll
9 traffic.

10 Isn't it true that in the case of intraLATA toll
11 traffic, the terminating traffic would still have to
12 incorporate the Qwest switched access?

13 A I believe that -- I'm sorry.

14 Q Go ahead.

15 A I believe that if Qwest were the intraLATA toll
16 carrier for that customer, that would be true. But if the
17 carrier were the intraLATA toll carrier, then that traffic
18 would pass through the carrier's switch and could be routed
19 over that same incoming facility for terminating access.

20 Q Assume with me that the carrier for the
21 originating call is -- it's an intrastate toll call. I'm
22 sorry. IntraLATA toll call and Qwest is the originating
23 customer's carrier, how would that traffic find its way to
24 this Qwest local service customer who is taking service for
25 toll on a special access circuit?

1 MR. REICHMAN: For clarification to your question
2 here, are you also assuming that the toll carrier in that
3 case is Qwest or that the toll carrier in that case is
4 another IXC?

5 MR. TRINCHERO: The originating caller's toll
6 carrier is Qwest.

7 MR. REICHMAN: The originating caller's toll
8 carrier is Qwest?

9 MR. TRINCHERO: Yes. The terminating customer's
10 toll carrier is some other IXC, non-Qwest IXC.

11 MR. REICHMAN: So, in other words, the non-Qwest
12 IXC is not carrying that toll call?

13 MR. TRINCHERO: That's correct.

14 MR. REICHMAN: Okay. Do you want to answer that
15 question?

16 THE WITNESS: I believe I understand. And if the
17 terminating customer's toll carrier -- the only way that
18 traffic could get to that customer would be by going from
19 the originating caller through Qwest's switch to the
20 carrier that was providing the local and toll for that end
21 user customer. And once it got to that switch, it could be
22 routed over that dedicated facility.

23 Q BY MR. TRINCHERO: Can I stop you there
24 because --

25 A I'm done.

1 Q The assumption is that the customer's local
2 service is still with Qwest?

3 A Okay.

4 MR. REICHMAN: I'm not sure if he's clear on the
5 question. Could you just make clear the route of that call
6 and who's carrying what. I think that would be helpful for
7 the record.

8 MR. TRINCHERO: Yes.

9 Q BY MR. TRINCHERO: The originating caller has
10 Qwest as their toll carrier. The customer that is
11 receiving the call has Qwest as its local carrier but has a
12 special access service from another IXC for toll and also
13 uses that other IXC for any incoming toll. How would that
14 toll call get to them?

15 A In that case that traffic would be routed over,
16 for example, the PBX trunk to the end user and would not
17 use the special access circuit. You found one.

18 Q Thank you. In your testimony you state that
19 it -- maybe I should find the actual wording.

20 In discussing the types of customers that would
21 likely purchase special access, you indicate that it would
22 be rare for residential customers to do so.

23 Have you seen any statistics on how many
24 residential customers in Qwest's intraLATA territory
25 actually use special access services?

1 A I have seen no statistics on that, no.

2 Q Is it fair to assume that the number would be
3 close to 0?

4 A I would expect it to be very small, yes.

5 MR. TRINCHERO: If I might have a moment, Your
6 Honor?

7 ALJ CROWLEY: You may.

8 MR. TRINCHERO: Thank you for your indulgence,
9 Your Honor. I think that actually would make our cross
10 examination somewhat shorter.

11 Q BY MR. TRINCHERO: At pages 15 and 16 of your
12 rebuttal testimony --

13 MR. REICHMAN: Excuse me. If I can just
14 interject. It seems that Mr. McIntyre has a slightly
15 different version. If you could perhaps direct him to the
16 question.

17 MR. TRINCHERO: Yes.

18 MR. REICHMAN: That would help.

19 MR. TRINCHERO: I think you have --

20 MR. REICHMAN: Am I the only one with the wrong
21 version?

22 MR. TRINCHERO: Yes.

23 MR. REICHMAN: If you could direct me to the
24 question then.

25 Q BY MR. TRINCHERO: Mr. McIntyre, if you turn to

1 Qwest 229, McIntyre 15, on your version at line 12, is
2 there a question, "In her price squeeze scenario, Ms. Starr
3 makes some", et cetera, et cetera?

4 A That's what I have.

5 MR. REICHMAN: That's what I have.

6 MR. TRINCHERO: Magic.

7 Q BY MR. TRINCHERO: At these two pages starting
8 here, you have some comments about the price squeeze
9 analysis that Ms. Starr had included in her testimony. And
10 one of the things that you discuss is your belief that the
11 non-access related costs to providing toll would probably
12 be less for competing interexchange carriers than it would
13 be for Qwest.

14 Is that a correct characterization of your
15 testimony?

16 A I would say if you could point me to a
17 specific -- there's one concern I have with that
18 characterization. If you could point me to it
19 specifically.

20 I can probably clarify by saying if you would add
21 the word "large" to your competing carrier phrase, then I
22 would more readily agree with your characterization.

23 Q Okay. Actually, I found the line itself. If you
24 go to line 21, I believe you state there, "Since AT&T and
25 other carriers also carry interLATA and interstate traffic,

1 these per minute costs will be much less than Qwest's
2 limited intraLATA traffic."

3 A Yes.

4 Q Have you done any studies internally to determine
5 whether that is true?

6 A No. That was basically based on Dr. Selwyn's
7 coming forth with the 4 cent per minute rate or cost as a
8 non-access cost. And non-access costs, which tend to be
9 non-traffic sensitive, when divided by large volumes drive
10 down that cost on a per minute basis.

11 So the logic tells you that the costs that tend
12 to be more fixed are not traffic sensitive. If you divide
13 by larger numbers, you get smaller numbers. So I would
14 expect that large volume carriers would have lower per
15 minute costs than smaller carriers.

16 Q Now, let's talk a little bit about the types of
17 non-access costs that would be involved.

18 Would you agree with me that a large portion of
19 that would be billing and collection related cost?

20 A That was one of my assumptions. And I believe
21 Ms. Starr stated that yesterday. I didn't know exactly
22 what was in the number, but that would be one that I would
23 assume.

24 Q And that would be the type of cost that Qwest
25 would also incur as a non-access cost?

1 A That's -- that was part of my assumption, that
2 that was one of those non-access costs.

3 Q And marketing, advertising for the services?

4 A Yes.

5 Q And customer care related costs?

6 A Yes.

7 Q Isn't it true that in Qwest's intraLATA territory
8 it is also the dominant local service provider?

9 A I would agree with that.

10 Q Would you agree with a rough estimate that Qwest
11 has at least 95 percent of that local market?

12 A I can't speak to a percentage. I don't know
13 those numbers.

14 Q When Qwest sends out bills to its local
15 customers, those bills include toll charges if that local
16 customer is also a toll customer of Qwest?

17 A Yes.

18 Q There's no separate billing for toll and local?

19 A For --

20 Q Toll and local.

21 A For Qwest customers?

22 Q For Qwest customers.

23 A Where Qwest is the local service and the local
24 toll provider?

25 Q Yes.

1 A No.

2 Q Now, in Ms. Starr's example, as you understand
3 it, she used the -- to determine the access related
4 costs -- well, let me go back.

5 In her price squeeze example, Ms. Starr in
6 determining what Qwest's access related costs would be,
7 used the unbundled network element rates set in the state
8 of Oregon for the elements that would be used in typically
9 providing switched access to an interexchange carrier;
10 isn't that true?

11 A I believe that's correct.

12 Q And that is based on the assumption that Qwest,
13 when providing toll, would provision the service to itself
14 using those same unbundled network elements; isn't that
15 correct?

16 A I -- you'd have to rephrase that. I'm sorry. I
17 don't think I agree with that.

18 Q Well, in establishing her price squeeze example,
19 to determine the Qwest cost of providing switched access to
20 itself, she used the unbundled network element rates for
21 components such as tandem switching, transport, all of the
22 elements that Qwest would use in providing switched access
23 service to a competing carrier; isn't that correct

24 MR. REICHMAN: Your Honor, I'm just going to
25 object to this. I think it may go outside the scope of Mr.

1 McIntyre's testimony. He hasn't testified about price
2 floors, which is really what you're getting at.

3 ALJ CROWLEY: Who testified?

4 MR. REICHMAN: I'm sorry. Mr. Brigham testified
5 about price floors and how they were determined
6 specifically.

7 MR. TRINCHERO: I'm actually not asking him
8 questions about how the price floors were determined. I'm
9 asking him about his rebuttal to Ms. Starr's price squeeze
10 example in her testimony, which she does address.

11 ALJ CROWLEY: I think your question is
12 permissible.

13 MR. TRINCHERO: Thank you.

14 THE WITNESS: Could you point me to a reference
15 in my testimony?

16 Q BY MR. TRINCHERO: Well, starting on page -- the
17 bottom of page 14, line 23 through the top of page 17, you
18 discuss your concerns with Ms. Starr's price squeeze
19 example.

20 A That's correct.

21 Q That's correct. Okay. And so I'm trying to get
22 behind that example.

23 A I understand. The problem I'm having is --

24 MR. REICHMAN: I'm not sure if there's a real
25 question pending here. Could you ask him a question?

1 MR. TRINCHERO: There is not a question yet.

2 However, if the witness would like to tell me --

3 MR. REICHMAN: I'd like the witness to --

4 MR. TRINCHERO: -- what it is he's not
5 understanding.

6 MR. REICHMAN: I would like the witness to answer
7 a question, so it's real clear.

8 ALJ CROWLEY: We have a context for the question,
9 so let's have the question.

10 Q BY MR. TRINCHERO: In her example, Ms. Starr
11 attributed to Qwest as Qwest's internal cost of providing
12 switched access to itself when provisioning toll, the cost
13 that -- the cost number that would be arrived by -- derived
14 by taking the UNE prices that this Commission has
15 established for the unbundled network elements that Qwest
16 typically uses in providing switched access to other
17 carriers. Is that your understanding?

18 A I don't specifically remember exactly which
19 number Ms. Starr used in her analysis, whether she used the
20 unbundled rate, although that sounds likely. But I don't
21 specifically remember if that's the number she used or
22 whether she used cost or whether she used some other
23 number.

24 My rebuttal talks about the general concept and
25 why I don't agree with her general concept and definition

1 that a price squeeze applies. But you're asking me about
2 the specific numbers she used, and I don't specifically
3 recall that and I don't specifically reference that number
4 in my testimony.

5 Q All right. Assume with me that that is what she
6 used -- and her testimony will speak for itself -- isn't it
7 true that in some situations Qwest will actually provision
8 switched access to itself using facilities and
9 configurations of those facilities that differ from the
10 facilities used and configurations of those facilities used
11 to provide switched access to interexchange carriers?

12 MR. REICHMAN: I object to the form of the
13 question because it assumes facts not in evidence. I don't
14 believe Qwest provides switched access to itself.

15 MR. TRINCHERO: Okay. Let me rephrase.

16 Q BY MR. TRINCHERO: In provisioning toll for toll
17 customers of Qwest, isn't it true that Qwest will sometimes
18 configure facilities that they use different in a manner --
19 different from the way they configure the facilities that
20 are used to provide switched access to interexchange
21 carriers?

22 A I suppose that's possible. Facilities are
23 configured in a variety of ways, usually at the request of
24 the carrier from the case of access. The carriers purchase
25 connecting circuits between the carrier's point of presence

1 and the Qwest office in a manner that is -- I believe they
2 view is most expedient and most efficient for them.

3 Qwest might provision facilities for toll that
4 are different from that and in some cases the same. I
5 mean, the networks are not exactly the same. So the
6 configuration of the facilities would most likely vary from
7 case to case.

8 Q Well, let's try to run through an example then.
9 If Qwest is providing switched access to an interexchange
10 carrier that is carrying an intraLATA toll call where the
11 customer at both ends of that call, those customers are
12 Qwest customers for local service. Do you have that in
13 mind?

14 A Yes.

15 Q Yes. Okay. Now, typically that traf -- that
16 call would be routed to a Qwest tandem; is that correct?

17 A It might be.

18 Q Okay. And then routed to the interexchange
19 carrier's point of presence?

20 A Typically, yes.

21 Q And then back to a Qwest tandem?

22 A Possibly.

23 Q And then out to the Qwest end user to terminate
24 the call?

25 A Yes.

1 Q So you have tandem switching occurring twice;
2 isn't that correct?

3 A You might.

4 Q Now, in a couple of instances in your answer you
5 said "that's possible" and "you might". Can you describe
6 to me a circumstance where you would not have tandem
7 switching twice in provisioning that for an interexchange
8 carrier on an intraLATA call?

9 A Well, the call might go to the local serving
10 Qwest office and have a direct trunk to the carrier POP
11 bypassing the tandem, and then from the carrier POP to the
12 other Qwest end office bypassing the tandem to the end
13 user.

14 Q Okay. Assume with me that that's not the case
15 for this example.

16 A Okay.

17 Q Okay. Now, in providing a similar call as the
18 toll provider, if Qwest has a host remote configuration
19 within its network and the end users, once again, are both
20 Qwest local user end user, Qwest is the toll provider
21 there, isn't it true that Qwest would only have to incur
22 tandem switching once in that scenario?

23 A That's theoretically possible. To be honest, I
24 don't know all of the possible configurations that Qwest
25 might use. A tandem might be involved and it might not,

1 depending on the flows of traffic. Sometimes that traffic
2 will be collected at a tandem and sometimes it won't.

3 I don't -- it's been a long time since I've been
4 in a specific network design portion of the business and I
5 don't know how they're doing that right now.

6 Q Now, earlier in your testimony you indicated that
7 an interexchange carrier is going to try to configure the
8 manner in which toll is provisioned and how switched access
9 is provisioned to it in order to provision a toll in the
10 most efficient manner possible, right?

11 A Just making sure there was a question on the end
12 of that.

13 Q That was your earlier testimony.

14 A I recall that discussion, yes.

15 Q And isn't it true that Qwest would do the same
16 when it is provisioning toll; that is it would provision
17 the switched access equivalent to itself in the most
18 efficient manner?

19 A Well, each provider that either provides
20 facilities or purchases facilities will try to make the
21 most efficient use of its network. That may vary
22 significantly based on volumes of traffic. That could be
23 routed over low band with facilities or high band with
24 facilities, depending on the volume of traffic involved.

25 I agree with your general concept that everybody

1 tries to make the most efficient use of their network and
2 their traffic and that there may be differences between
3 providers as to how those networks are configured.

4 Q And, in fact, in some instances that cost, when
5 Qwest provides the toll itself, could be less than when an
6 interexchange carrier has to purchase switched access
7 services?

8 MR. REICHMAN: I'm sorry. I did not hear the
9 last two words of that question. When an interexchange
10 carrier has to purchase --

11 MR. TRINCHERO: Switched access service from
12 Qwest.

13 MR. REICHMAN: Thank you.

14 THE WITNESS: I would agree that's probably
15 generally true. There are circumstances where it might be
16 true and it might not be true, depending on the volumes of
17 traffic. For very high band width, very high volume
18 facilities and trunking, the cost gets very low on a per
19 minute per message basis.

20 So there's a lot of ifs in that. There's a lot
21 of assumptions in that general statement.

22 Q Let's turn to Qwest's elimination of the
23 common -- carrier common line charge in this case. Let's
24 take a hypothetical.

25 Let's assume that Qwest has current revenues for

1 switched access, including the CCL revenues of \$30 million.

2 Do you have that in mind? This is just a hypothetical.

3 A Is that a proprietary number?

4 MR. REICHMAN: It's a hypothetical.

5 MR. TRINCHERO: No. It's a hypothetical.

6 THE WITNESS: Oh, it's a hypothetical.

7 MR. REICHMAN: It's a pretend number.

8 MR. TRINCHERO: It's a pretend number.

9 Q BY MR. TRINCHERO: Let's assume that Qwest's
10 current switched access revenues including the CCL is \$30
11 million.

12 A Okay.

13 Q Assume with me also that the CCL revenues are 20
14 million of the \$30 million.

15 A Okay.

16 Q Okay. Let's assume that Qwest eliminates the
17 CCL. So that would be a reduction of \$20 million, wouldn't
18 it?

19 A Yes.

20 Q Leaving switched access revenues of \$10 million.

21 A If that's the only change you made, yes.

22 Q Okay. Now, let's assume first that Qwest
23 increases the switching and transport rate elements within
24 switched access by \$20 million.

25 Do you have that assumption in mind?

1 A Yes.

2 Q So then the total revenues for the switched
3 access service for Qwest after these rate changes, assuming
4 no stimulation, would be \$30 million, right?

5 A Yes.

6 Q Okay. Thank you. Now, assume with me for the
7 purposes of this hypothetical that at your starting point
8 where you've had a \$30 million total switched access
9 revenue, and \$20 million of that was the CCL, would you
10 agree with me that the CCL component of that is a subsidy
11 element?

12 MR. REICHMAN: Object to the -- object to the
13 form of the question. I'm not sure what "subsidy element"
14 means.

15 MR. TRINCHERO: Okay.

16 MR. REICHMAN: If the witness can answer.

17 ALJ CROWLEY: Would you --

18 MR. TRINCHERO: Yes.

19 ALJ CROWLEY: -- define your terms?

20 MR. TRINCHERO: Assume for my hypothetical that
21 the CCL actually provides subsidy for the local loop and is
22 not related to the switched access costs itself, cost of
23 providing the switched access.

24 A Okay.

25 Q Okay. After making the rate changes that we went

1 through in our hypothetical, would you still be getting \$20
2 million worth of subsidy?

3 A No.

4 Q Okay. Thank you.

5 THE WITNESS: Well, can I add to that?

6 ALJ CROWLEY: Go ahead.

7 THE WITNESS: It would -- it's possible. It
8 would depend on your definition of "subsidy" and what the
9 Commission might choose to determine was a subsidy in a
10 particular case.

11 For example, if the -- if you shifted that
12 revenue to another product or service, whether it's
13 switched access or any other product or service, and then
14 you could determine that the new rate for that new product
15 or service was above its stand alone cost, which is one
16 arguable standard for determining whether a subsidy exists,
17 and you determine that you've raised that other rate
18 element to a point above its stand alone cost, then I would
19 agree that that portion that was above its stand alone cost
20 would constitute a subsidy.

21 But as long as it stayed below its then stand
22 alone cost, then all it is is a different level of
23 contribution on that other product or service. You could
24 no longer call it a subsidy.

25 MR. TRINCHERO: Could I have one moment?

1 ALJ CROWLEY: Go ahead.

2 MR. TRINCHERO: Thank you, Your Honor.

3 ALJ CROWLEY: Go ahead.

4 Q BY MR. TRINCHERO: Could you turn to pages 9 and
5 10 of your rebuttal testimony, Mr. McIntyre?

6 A Yes, I have that.

7 Q Now, on those pages you respond to Ms. Starr's
8 recommendation that switched access rates in this docket
9 should be set at the equivalent of the unbundled network
10 element prices established by this Commission in Docket UM
11 844.

12 Do you see that?

13 A Yes.

14 Q And you have recommended that the Commission not
15 do that; is that correct?

16 A That's correct.

17 Q And, in part, one of your reasons is because
18 switched access is a finished service and building blocks
19 are not; is that correct?

20 A Yes.

21 Q And at lines starting at line 16 on page 9, you
22 state that finishing services are more easily ordered by
23 customers who do not understand the details of how
24 telecommunications services are provisioned or
25 interconnected.

1 Do you see that?

2 A Yes.

3 Q Now, earlier today you indicated that switched
4 access -- that an interexchange carrier ordering switched
5 access is going to order switched access in a configuration
6 most efficient for its purposes; isn't that correct?

7 A I would expect them to.

8 Q And isn't it fair to say that interexchange
9 carriers are sophisticated customers when it comes to
10 ordering switched access?

11 A I would like to believe that.

12 Q And, Mr. McIntyre, have you ever in your career
13 either used an ASR to order service or been on the
14 receiving end of an ASR?

15 ALJ CROWLEY: For the record, please, ASR?

16 MR. TRINCHERO: It's an access service request.

17 ALJ CROWLEY: Thank you. Mr. Reichman?

18 MR. REICHMAN: Okay. I had the same request.

19 THE WITNESS: No, I haven't.

20 Q BY MR. TRINCHERO: Have you -- are you familiar
21 at all with Qwest's LSRs, or local service request forms?

22 A Somewhat.

23 Q And the LSR, is it your understanding that the
24 LSR is the form that a competitive local exchange carrier
25 would use in order to purchase or in order to order

1 unbundled network elements?

2 A I've heard something about that. I don't really
3 know the process for ordering unbundled network elements.

4 Q So, sitting here today, are you able to testify
5 that ordering access service using an ASR is any more
6 simple than ordering unbundled network elements using an
7 LSR?

8 A On that specific point of it, no, I can't.

9 Q Thank you.

10 MR. TRINCHERO: If I might have one moment, Your
11 Honor?

12 ALJ CROWLEY: Go ahead.

13 MR. TRINCHERO: Your Honor, if I might approach?

14 ALJ CROWLEY: Go ahead.

15 MR. TRINCHERO: Your Honor, I'd ask that we mark
16 this document for identification as AT&T --

17 ALJ CROWLEY: 16.

18 MR. TRINCHERO: 16. Thank you.

19 Q BY MR. TRINCHERO: Mr. McIntyre, I've handed you
20 a document. And it's identified as Qwest's response to
21 AT&T data request 04-040.

22 Do you see that?

23 A Yes.

24 Q And do you recognize this as Qwest's response to
25 that data request?

1 A Yes.

2 Q And it was in part prepared by you or at your
3 direction, wasn't it?

4 A Yes.

5 Q Thank you.

6 MR. TRINCHERO: Your Honor, I move the admission
7 of AT&T 16.

8 ALJ CROWLEY: Any objections?

9 MR. REICHMAN: No objections.

10 ALJ CROWLEY: It's admitted.

11 Q BY MR. TRINCHERO: At page 10 of your rebuttal
12 testimony, you recommend once again that the Commission
13 establish switched access rates at a level higher than the
14 equivalent unbundled network element prices; is that
15 correct?

16 A Yes.

17 Q And, in part, that's because the FCC is currently
18 determining whether or not interexchange carriers should be
19 permitted to use unbundled network elements in combination
20 to provide the equivalent switched access; is that right?

21 A No, not really. My argument is that the FCC
22 currently specifically prohibits carriers from purchasing
23 unbundled elements unless they also offer local service.

24 In fact, the FCC believes that there are
25 substantial reasons to preclude carriers from purchasing

1 those elements at those rates. Seems like a pretty good
2 reason at this point in time not to set these rates at that
3 level.

4 Q And what the FCC is talking about there is the
5 difference between interstate access rates and UNE rates,
6 isn't it?

7 A No, I wouldn't characterize it that way. I
8 believe they are -- there is a prohibition against carriers
9 purchasing unbundled elements unless they also offer local
10 service.

11 Q Now, under this prohibition in the FCC's
12 decision, at least temporarily, to prohibit IXCs from using
13 unbundled network elements to provision the equivalent of
14 switched access, isn't it fair to say that there is an
15 assumption that switched access rates provide some
16 contribution above the cost of providing those elements?

17 A I -- that sounds reasonable. I don't really know
18 what the presumption is there on the part of the FCC. That
19 would I suppose seem likely.

20 Q Isn't it true that the current interstate
21 switched access rate as adopted by the FCC for Bell
22 operating companies is -- sorry. I had to move the decimal
23 point. .0055?

24 MR. REICHMAN: Objection. Relevance.

25 MR. TRINCHERO: Your Honor, we've been discussing

1 the FCC's prohibition on use of unbundled network elements
2 by interexchange carriers' provisioned switched access
3 with the suggestion that there is a differential between
4 switched access rates and the unbundled network element
5 rates that would make up switched access service.

6 I am asking this question because the FCC rate
7 for switched access is, in fact, much lower than the
8 intrastate rate for switched access.

9 ALJ CROWLEY: I'm going to allow it.

10 THE WITNESS: Could you ask me that again?

11 Q BY MR. TRINCHERO: Yes. Isn't it true that the
12 current interstate access rate that the FCC has adopted for
13 Bell operating companies is .55 cents?

14 A I believe that's a composite. There's a number
15 of rate elements that go into that. That approximates
16 the -- the average composite rate of switched access in the
17 interstate arena.

18 Q Do you know what the composite rate would be for
19 switched access -- I'm sorry. One moment.

20 If the Commission were to adopt Ms. Starr's
21 recommendation that switched access rates be based on the
22 prices for the unbundled network elements that make up
23 switched access, do you know what that rate would be?

24 A You know, I know that's in here. I believe it's
25 in Ms. Starr's testimony. I don't believe I specifically

1 refer to that number, so it doesn't stick in my mind.

2 Q Very good. Thank you.

3 MR. TRINCHERO: Your Honor, I have no further
4 questions of this witness. Thank you, Mr. McIntyre.

5 ALJ CROWLEY: Thank you. Ms. Hopfenbeck?

6 MS. HOPFENBECK: I do have some questions, but I
7 would ask for a quick bathroom break, please.

8 ALJ CROWLEY: All right. Let's be back here,
9 please, no later than five of.

10 (Recess taken)

11 ALJ CROWLEY: Let's go back on the record. Ms.
12 Hopfenbeck?

13 MS. HOPFENBECK: Well, breaks are always
14 productive. I have no cross for the witness.

15 ALJ CROWLEY: Oh, indeed. Okay. And Staff has
16 cross for Mr. McIntyre?

17 MR. WEIRICH: I have no cross.

18 ALJ CROWLEY: All right. Any follow up, Mr.
19 Reichman?

20 MR. REICHMAN: Just a little.

21 ALJ CROWLEY: Thank you.

22 --ooOoo--

23 REDIRECT EXAMINATION

24 BY MR. REICHMAN:

25 Q Mr. McIntyre, Mr. Trincherro was asking you some

1 questions at one point relating to your testimony at page
2 15, lines 21 to 22.

3 ALJ CROWLEY: And this is rebuttal testimony?

4 MR. REICHMAN: I apologize. It's your rebuttal
5 testimony.

6 MR. TRINCHERO: Sorry. Could you give me that
7 page number?

8 MR. REICHMAN: Yes. 15, lines 21 and 22.

9 Q BY MR. REICHMAN: Where you stated, "Since AT&T
10 and other carriers also carry interLATA and interstate
11 traffic, these per minute costs will be much less than
12 Qwest's intraLATA traffic."

13 Do you have that -- those questions in mind?

14 A Yes.

15 Q And what you're referring to there are the -- is
16 the per minute non-access costs; is that correct?

17 A That's correct.

18 Q And Mr. Trincherro asked you if you had performed
19 any study on that. And you said no.

20 Other than a study, do you have any information
21 that compares the large IXCs' switched access minutes of
22 use for both interLATA and intraLATA toll to Qwest's toll
23 minutes of use?

24 A Yes, in general.

25 MR. TRINCHERO: Excuse me.

1 ALJ CROWLEY: Mr. Trincherro?

2 MR. TRINCHERO: Your Honor, I'm just going to
3 object because I think we need some clarification on the
4 question. Is that interLATA toll in Oregon?

5 MR. REICHMAN: No. I think it's all -- well,
6 it's a good point. It's interLATA toll that would either
7 originate and terminate in Oregon and intraLATA toll that
8 would, obviously, originate and terminate in Oregon. So
9 I'm including interLATA toll only to the extent it
10 originates or terminates in Oregon.

11 MR. TRINCHERO: Originates or terminates in
12 Oregon?

13 MR. REICHMAN: Correct. For which an IXC would
14 be paying Qwest some sort of switched access charges in
15 Oregon.

16 MR. TRINCHERO: Either originate or terminate in
17 Oregon?

18 MR. REICHMAN: Correct.

19 Q BY MR. REICHMAN: Do you have my question in
20 mind, or would you like me to restate it?

21 A I think I'm okay.

22 Q Okay. Go ahead.

23 A In making those general volume type statements, I
24 did look at the switched access minutes that Qwest charges
25 carriers and the toll minutes that Qwest carries to try to

1 determine the relative volumes. And I determined that the
2 carriers purchased almost 12 times as much switched access
3 minutes as Qwest carries toll.

4 Assuming that those switched access minutes are
5 equivalent or rough equivalent to toll minutes, that
6 suggests that the carriers in total carry 12 times as much
7 traffic. And that would suggest that -- that was the basis
8 for my analysis that said the cost per minute on non-access
9 type costs would be much lower for higher volume carriers.

10 Q And that general statement is referenced in your
11 testimony on page 16, lines 7 to 10, correct?

12 A Yes.

13 Q Your rebuttal testimony, to be clear for the
14 record.

15 And then what you're comparing, based on Mr.
16 Trinchero's request for clarification, are for the switched
17 access minutes, those are only for calls that are
18 originated or terminated in the state of Oregon; is that
19 correct?

20 A That's correct.

21 Q Earlier on Mr. Trinchero had posed a
22 hypothetical. And as I understand it, these were the facts
23 in that hypothetical: It had to do with -- it had to do
24 generally with an IXC's ability to bypass switched access
25 charges through use of special access. And I just want to

1 set forth what I understand the hypothetical was and ask
2 you a question.

3 As I understand the hypothetical, there was a --
4 there was a Qwest local customer that also had a special
5 access facility to another toll provider, another IXC,
6 another IXC other than Qwest. That there was another Qwest
7 customer over here who was originating a toll call to that
8 first customer. That the originating caller used Qwest for
9 its toll traffic.

10 And I believe that you said that when that call
11 was terminated to the first customer, it would not go over
12 the special access facility that linked the terminating
13 customer with the IXC but it would, indeed, go through
14 Qwest's switch and Qwest's facilities to that customer.

15 Do you have that scenario in mind?

16 A I recall that specifically, yes.

17 Q Okay. Thank you. Now, in that case it's true
18 that that call would not be routed over to special access
19 circuit to the terminating customer, correct?

20 A That's correct.

21 Q But it's also true that the toll carrier who
22 serves the terminating customer through the special access
23 circuit would not be paying any switched access charges for
24 that call because it's a Qwest toll call, correct?

25 A That's correct. They wouldn't be handling the

1 call at all, therefore, they would not pay any switched
2 access for terminating that toll call.

3 Q Thank you.

4 MR. REICHMAN: I have no further questions for
5 Mr. McIntyre.

6 ALJ CROWLEY: Any follow up to that, Mr.
7 Trincherro?

8 MR. TRINCHERO: One moment, Your Honor.

9 ALJ CROWLEY: Sure.

10 MR. TRINCHERO: Thank you, Your Honor.

11 --ooOoo--

12 RE CROSS EXAMINATION

13 BY MR. TRINCHERO:

14 Q Mr. McIntyre, you were asked on redirect by Mr.
15 Reichman some questions about the non-access related costs
16 of providing toll.

17 When Qwest bills its local service customers for
18 intraLATA toll, isn't it correct that it includes those
19 charges on the customer's local service bill?

20 MR. REICHMAN: That's been asked and answered.

21 ALJ CROWLEY: That's my understanding also, Mr.
22 Trincherro.

23 MR. TRINCHERO: Okay.

24 Q BY MR. TRINCHERO: So there's no separate
25 envelope?

1 MR. REICHMAN: I think that's been asked and
2 answered as well.

3 THE WITNESS: I think I recall that --

4 Q BY MR. TRINCHERO: If you know, what is the
5 incremental cost to Qwest of billing intraLATA toll calls
6 to a Qwest local service customer?

7 A I don't know that.

8 Q Wouldn't it be pretty close to 0?

9 MR. REICHMAN: Objection. The witness says he
10 doesn't know that.

11 Q BY MR. TRINCHERO: Can you assume with me that it
12 would be a very small incremental cost?

13 MR. REICHMAN: I object. This witness is not
14 presented as a cost witness. He says he doesn't know
15 that. I don't see the purpose of him assuming something
16 unless you're leading to a hypothetical question.

17 MR. TRINCHERO: Well, this witness does testify
18 as to his surmise as to the relative non-access cost
19 between IXCs providing toll and Qwest providing toll. And
20 he does so in a general manner. And I'm asking him in a
21 general manner whether he believes that the incremental
22 billing cost for intraLATA toll for Qwest to its own local
23 customers is close to 0.

24 ALJ CROWLEY: All right. In that restrictive
25 context, I'm going to allow the question with those

1 caveats.

2 THE WITNESS: Well, I have some problems with
3 that. Partially close to 0, there are a lot of costs and
4 rates in this environment that are quote, close to 0, in
5 terms of pennies or fractions of pennies or whatever.

6 Whether the -- I don't really know what the cost
7 is to provide that incremental amount of toll billing on a
8 customer's bill. I also don't know whether it -- what the
9 incremental cost to a carrier is if they choose to use
10 their Master Card format as a way of billing.

11 I was offered by a toll carrier that if I -- if I
12 wanted to waive the five dollars a month flat fee, I could
13 do so if I would have them bill me over Master Card and
14 they would have Master Card send me my bill.

15 I don't know how much that is either. It might
16 be similar. I can't speak to that.

17 MR. TRINCHERO: Thank you, Your Honor. No
18 further questions.

19 ALJ CROWLEY: Mr. Reichman, any follow up?

20 MR. REICHMAN: No, thank you.

21 ALJ CROWLEY: Thank you very much, Mr. McIntyre.
22 You're excused as a witness.

23 The next witness is Mr. DeTirro for WorldCom.

24 MS. HOPFENBECK: WorldCom calls Anthony DiTirro,
25 please.

1 ALJ CROWLEY: Would you raise your right hand.
2 (Witness sworn by the Administrative Law Judge)

3 ALJ CROWLEY: Please be seated. State and spell
4 your name for the record.

5 THE WITNESS: My name is Anthony J. DiTirro. The
6 last name is D-i T-i-r-r-o.

7 ALJ CROWLEY: Thank you. Ms. Hopfenbeck?

8 --ooOoo--

9 ANTHONY D. DiTIRRO,

10 Thereupon called as a witness on behalf of WorldCom, first
11 duly sworn, was examined and did testify as follows:

12

13 DIRECT EXAMINATION

14 BY MS. HOPFENBECK:

15 Q Mr. DiTirro, do you have before me -- before you
16 what's been marked for identification as WorldCom
17 Exhibit 1?

18 A Yes.

19 Q Do you have any changes or corrections to make to
20 that testimony?

21 A Yes. I have one. On page 7, the footnote at the
22 bottom of the page which says, "47 USC Section 254C", it
23 should not be C. It should be E and K. And that's my only
24 correction.

25 Q If I were to ask you the questions contained in

1 your -- in the direct testimony of Anthony J. DiTirro
2 today, would your answers be the same?

3 A Yes.

4 MS. HOPFENBECK: I move the admission of WorldCom
5 Exhibit 1.

6 ALJ CROWLEY: And no party registered objections,
7 so that's admitted.

8 MS. HOPFENBECK: Mr. DiTirro is available for
9 cross.

10 ALJ CROWLEY: Thank you. And Qwest has the lead.

11 MR. REICHMAN: Yes. Thank you.

12 --ooOoo--

13 CROSS EXAMINATION

14 BY MR. REICHMAN:

15 Q Good morning, Mr. DiTirro.

16 A Good morning.

17 Q You testified that Qwest's switched access rates
18 for intraLATA calling and intrastate calling should be set
19 equivalent to the UNE rates established for Qwest,
20 correct?

21 A Yes, that's our recommendation.

22 Q And on page 16 of your testimony, you state that
23 Qwest's proposed rates for intrastate switched access,
24 quote, are directly contrary to the act's requirement that
25 prices be cost based, closed quote. Is that correct?

1 A I'm sorry. Can you direct me to that?

2 Q Yes. Page 16. Let me try to give you a line
3 number. Line 14 -- line 14.

4 A I'm sorry. What page again?

5 Q Page 16, line 14. I'm hoping we don't have a
6 version problem here.

7 MS. HOPFENBECK: I don't have that same number.
8 What's the question there?

9 MR. REICHMAN: The question goes back. "How do
10 you respond to Qwest's claim that its proposed intrastate
11 rates are lower than its interstate rates?"

12 MS. HOPFENBECK: I've got that question beginning
13 on page 14, line 19.

14 ALJ CROWLEY: I do, too. Is this an electronic
15 service issue?

16 MR. REICHMAN; It is. I always try to use the
17 hard copy.

18 MS. HOPFENBECK: We did serve hard copies as
19 well.

20 ALJ CROWLEY: I have the same pagination as
21 well. And I'm just wondering why the discrepancy.

22 MR. WEIRICH: I think Mr. Reichman's --

23 MR. REICHMAN: I'm having a pagination problem.

24 MS. HOPFENBECK: We served in Acrobat and Word.
25 But you probably have the Word version. Sorry.

1 Q BY MR. REICHMAN: Let's try it.

2 A I'm aware. It's at that question.

3 Q Have you found what I've referenced?

4 A Let me look. Are you saying --

5 Q Let me direct you to the second paragraph after
6 that question. At the fourth line you say that certain
7 pricing proposal --

8 MS. HOPFENBECK: It starts on -- I'll direct him
9 to it. I found it. It's on page 15, line 11, beginning
10 with "such".

11 Q BY MR. REICHMAN: "Such a result".

12 A Yes, I see that.

13 Q Okay. And there you're responding to Qwest's
14 pricing proposal to, as you put it, should proportion of
15 the subsidy that once resided in CCL rates to remain in
16 local switching and local transport rates, correct?

17 A Yes.

18 Q And, in effect, you're referring to a question to
19 increase some of those local switching and local transport
20 rates?

21 A Correct.

22 Q Okay. And you say that that result is directly
23 contrary to the 1996 Acts requirements that prices be cost
24 based, correct?

25 A Yes. And I think it goes on to say that all

1 subsidies are explicit.

2 Q And I just want to refer you to the first part
3 where you say prices -- that the act requires that prices
4 be cost based.

5 When you say that the act requires that prices be
6 cost based, are you referring to the requirement in Section
7 252 D2 that UNE prices are cost based?

8 A No. I believe I'm referring to the part of the
9 act that says implicit subsidies should be eliminated.

10 Q And where is that?

11 A I believe it's 254 -- it's the cite I just
12 corrected. I believe it's 254 K.

13 Q Section 254 K?

14 A I believe so. I don't have it up here with me.

15 Q Okay. And you rely on that provision of the act
16 to say that subsidies should be explicit; is that correct?

17 A Yes.

18 Q Does that section of the act say that prices have
19 to be cost based?

20 A It doesn't expressedly say that. But by
21 eliminating the implicit subsidies, then you come to
22 that -- you come to that basis.

23 Now, again, when I say "cost based", you may --
24 and I referenced this earlier in my testimony, where when I
25 say "cost based" and I refer to the UM 844 rates, prices,

1 those prices do include a contribution to joint and common
2 costs and reasonable profits. So that must be understood
3 when I use the term "cost basis".

4 Q And you reference UM 844. And you understand
5 that that is, in effect, this Commission's efforts to
6 comply with Section 252 of the act to set prices for
7 unbundled network elements, previously known as building
8 blocks?

9 A I can accept that.

10 Q Okay. And in that context, the act requires that
11 UNE prices be cost based. But as you've noted, that can
12 include a contribution to joint and common costs, correct?

13 A And a reasonable profit, yes.

14 Q And a reasonable profit.

15 Now, this case, Docket UT 125, is not designed to
16 set unbundled network element rates, correct?

17 A Correct.

18 Q This docket is designed to set retail rates,
19 correct?

20 A Retail and wholesale rates.

21 Q And wholesale rates. What wholesale rates?

22 A Access rates. We would consider it a wholesale
23 rate.

24 Q Okay. Other than access rates which you consider
25 wholesale, this docket is designed to set retail rates,

1 correct?

2 A Yes.

3 Q And you do agree, do you not, that Section 252 of
4 the act does not set the pricing standards for the
5 Commission to apply in setting prices in this proceeding,
6 correct?

7 A Correct.

8 Q You were not here yesterday, were you?

9 A No. I just got here yesterday late.

10 Q Welcome to Oregon.

11 A Thank you.

12 Q Yesterday AT&T's witness pledged on the stand
13 that AT&T would pass through the entire amount of any
14 switched access rate reductions to consumers in the form of
15 lower intraLATA toll rates.

16 Is WorldCom willing to do the same thing?

17 A I really can't say. I'm not an employee of
18 WorldCom.

19 Q Oh, you're not?

20 A No.

21 Q I'm sorry. I misunderstood.

22 A Okay.

23 Q You're a consultant hired by WorldCom?

24 A That's correct.

25 Q Is it your understanding that WorldCom has made

1 that commitment anywhere in this proceeding?

2 A No, that's -- that's not my understanding. I
3 don't believe they have.

4 Q Thank you for that.

5 Now, you state in your testimony on page -- well,
6 my page 20. Let me find a question. You may not have page
7 20.

8 The question is -- it's Section Roman numeral 5,
9 toll rate design. There's one question there.

10 A Okay.

11 Q And I'm referring to approximately five lines up
12 from the end of that question. The sentence says, "In
13 contrast, those competitors that are forced to reduce their
14 toll rates to meet the price levels set as a result of this
15 proceeding must do so by reducing their margins."

16 Do you see that?

17 A Actually, I don't yet. You're saying five lines
18 up?

19 MS. HOPFENBECK: It's line 21. Page 18, line
20 21. That's where it starts.

21 THE WITNESS: Okay. Yes. I see that.

22 Q BY MR. REICHMAN: Okay. Thank you.

23 Now, if Qwest reduces its average revenue per
24 minute by 6 cents, by how much would WorldCom need to
25 reduce its rates or revenue per minute to stay

1 competitive?

2 A Well, I don't know what the relative rates
3 between the two companies are.

4 Q Current. You don't know what those are
5 currently?

6 A That's -- well, that's correct. I don't know if
7 you're talking about -- obviously, if, say, WorldCom's
8 rates were already lower than your client's rates, then to
9 stay competitive they would only have to lower their rates
10 something less than the average rate per minute you were
11 referring to.

12 Q Okay. Just so I understand, is it your testimony
13 that if Qwest lowers its rates in this proceeding and
14 WorldCom wants to stay competitive, WorldCom will need to
15 lower its average rates to approximately the same level as
16 Qwest's average rates?

17 A I think that's a gross generalization. When you
18 say "average rates", there are certain target rates at
19 which the two companies probably compete. And so it may
20 not be a case of average rates.

21 But lowering specific services rates at the point
22 at which -- there's a certain area where the companies are
23 directly competing for customers.

24 Q And when you say "certain rates", are you
25 referring to rates for certain plans or something like

1 that, or are you referring --

2 A Yes.

3 Q Are you referring to residential versus business?

4 A It could be both of those.

5 Q It could be both or either?

6 A Right.

7 Q Okay. And where there's that -- how would you
8 describe those services where the companies would focus?
9 What term would you use to describe those services where
10 WorldCom might focus on lowering rates?

11 A It would depend on the market segment. But, for
12 example, you mentioned as an example the residential
13 market. While WorldCom might not lower its overall rates
14 for its residential services, it might lower certain plans
15 for residential customers. And those are the services that
16 it provides that it believes are competing directly against
17 Qwest's rates.

18 Q Okay. And so WorldCom would try to find a
19 similar type of plan to Qwest and try to match the rates in
20 that regard, or is that what you're saying?

21 A It could actually introduce new products or new
22 plans to do that, yes.

23 Q Okay. And it's your testimony that WorldCom
24 would roughly match the Qwest rates?

25 A I was saying if that happens, then to stay

1 competitive, they would have to reduce their margins. I
2 don't think I've taken that leap to your question that they
3 would.

4 Q But they actually would?

5 A I don't know that.

6 Q Well --

7 A I'm saying to stay competitive, if that's the
8 premise of your question.

9 Q Yeah. I'm starting with your testimony which
10 says, "Those competitors that" -- maybe I'm misreading. It
11 says, "Those competitors that are forced to reduce their
12 toll rates to meet the price levels set as a result of this
13 proceeding."

14 Now, when you say "those competitors that are
15 forced to reduce their toll rates", do you mean only those
16 competitors whose rates would be above the level to which
17 Qwest is reducing its rates?

18 A I don't know if I follow your question.

19 Q Why don't you tell me what you mean by that.

20 A I guess in that case, I was saying that in order
21 to stay competitive, they would be forced to reduce their
22 rates to meet the price levels as set. And by doing so,
23 they would be reducing their margins.

24 Q Okay. And meeting the price levels, you mean
25 roughly match the new price for Qwest on -- perhaps on

1 certain services, or introduce new services that roughly
2 match?

3 I'm just trying to understand what you mean.

4 A The overall value -- the overall value to the
5 customer would roughly match.

6 Q Okay. And let's say for a particular service
7 Qwest were to reduce its price in this proceeding by 6
8 cents a minute.

9 A Okay.

10 Q Let's say that WorldCom had a service that it
11 considered competitive to that service that's currently
12 priced 3 cents a minute lower than Qwest's current price.
13 Okay?

14 A Okay.

15 Q So if Qwest lowers the price 6 cents for that
16 service, then WorldCom is only going to need to lower that
17 price by 3 cents to meet Qwest's price, correct?

18 A Under that hypothetical, correct.

19 Q Okay. And that alone, if you just look at that
20 fact alone, that would reduce WorldCom's margin by 3 cents
21 for that service, correct?

22 A Yes.

23 Q Now, if switched access rates paid by WorldCom
24 related to that service are reduced by 3 cents, then, in
25 effect, WorldCom's gross margin would be unchanged in that

1 hypothetical, correct?

2 A All other things remaining equal, yes, that
3 sounds correct.

4 Q There was some testimony yesterday that AT&T has
5 introduced in the state of Colorado a surcharge of a dollar
6 twenty-five per month for each of its intraLATA toll
7 customers in the state of Colorado.

8 I know you weren't here yesterday, but are you
9 aware of that price change?

10 A No.

11 Q By AT&T?

12 A I'm not.

13 Q You're not. Are you aware of whether WorldCom
14 has introduced any such similar charges in the states that
15 it covers to offset intrastate access charges?

16 A No.

17 Q And, again, you're not a WorldCom employee, so it
18 may not be fair for you --

19 ALJ CROWLEY: Excuse me. For my understanding,
20 that answer meant no, you're not aware?

21 THE WITNESS: I'm not aware that WorldCom has any
22 plans.

23 ALJ CROWLEY: Thank you.

24 Q BY MR. REICHMAN: Or has done that?

25 A Or has done that.

1 Q Now, you also state that IXCs have no effective
2 choice but to use Qwest's access services to provide toll
3 service to the majority of residential and small business
4 customers, correct?

5 A Yes.

6 Q Now, isn't it true that IXCs can provide
7 intraLATA toll service to other customers without paying
8 switched access charges?

9 A By "other customers", other than the small
10 business and residential customers I referred to, I would
11 agree.

12 Q If, for example, higher volume business
13 customers?

14 A Yes.

15 Q And WorldCom may choose to serve them through the
16 use of special access circuits?

17 A That's correct.

18 Q Are you aware that WorldCom's --

19 MR. REICHMAN: This may be confidential, this
20 next question.

21 MS. HOPFENBECK: Could we go off the record for a
22 moment?

23 ALJ CROWLEY: Sure.

24 (Off the record discussion held)

25 Q BY MR. REICHMAN: Mr. DiTirro, do you have in

1 front of you what has been premarked as Exhibits Qwest 235,
2 236 and 237?

3 A Yes, I do.

4 MR. REICHMAN: And, Your Honor, just so I don't
5 forget, we move admission of these now. WorldCom has I
6 believe represented they would not object to these.

7 ALJ CROWLEY: All right. These are admitted,
8 Qwest 235, 236 and 237.

9 MR. REICHMAN: Thank you.

10 Q BY MR. REICHMAN: Mr. DiTirro, are you familiar
11 with WorldCom's responses to -- are you familiar with these
12 documents?

13 A I have seen them before, yes.

14 Q You have? Good. If I could ask you to take
15 Exhibit Qwest 235 and turn to page 2, line 20. And we
16 should all be on the same page because I copied these.

17 That indicates, does it not, that Confidential
18 Attachment B to this data request reflects total intraLATA
19 MOU for WorldCom's mass market products in Oregon?

20 A That's what it states there, yes.

21 Q And then if you turn to page 3, line 23, it
22 states that WorldCom provides in Confidential Attachment C
23 to this response WorldCom's switched access minutes for
24 Qwest dating from September 2000, correct?

25 A Yes.

1 Q Okay. And then let me ask you to look at the
2 next exhibit, Qwest 236. Page 2, starting at line 9
3 states, "As a courtesy, Confidential Attachment A appended
4 hereto shows the number of originating and terminating
5 intraLATA toll of MOU carried over dedicated facilities
6 leased by Legacy WorldCom's subsidiaries from Qwest."

7 Correct?

8 A Yes.

9 Q And do you understand the term "dedicated
10 facilities" --

11 A Yes.

12 Q -- to be --

13 A Oh, I'm sorry.

14 Q That's okay. Did you understand that to be
15 synonymous to what we have also referred to as special
16 access facilities?

17 A Typically, yes, that's true.

18 Q And in this context, that's how you would
19 understand that term?

20 A Yes.

21 Q And this response specifically references
22 dedicated facilities leased by Legacy WorldCom subsidiaries
23 from Qwest, correct?

24 A That's what it says, yes.

25 Q Now, it's true, is it not, that Legacy WorldCom

1 subsidiaries could obtain special access or dedicated
2 facilities from other providers other than Qwest?

3 A Yes, that's possible.

4 Q Even in Oregon and Qwest service territory?

5 A I'll assume that it's possible here. I know it's
6 generally possible.

7 Q You have no reason to believe it's not possible
8 here?

9 A That's correct, I have no reason.

10 Q Is it true that WorldCom could self-provision
11 such dedicated facilities to access a customer, correct?

12 A That's possible, yes.

13 Q Okay. Let me ask you now to turn to document --
14 Exhibit Qwest 237. Page 2, line 16, starting at line 16
15 states, "Please see Confidential Attachment B for the total
16 number of originating and terminating intraLATA toll MOU
17 carried over dedicated facilities leased from Qwest by MCI
18 Communications Inc, correct?

19 A Yes.

20 Q So the same questions as I asked you before. A
21 dedicated facility is also known as special access
22 facilities?

23 A Correct.

24 Q And it's also true that MCI could obtain such
25 facilities from providers other than Qwest even in Qwest's

1 Oregon service territory, correct?

2 A That is possible.

3 Q And MCI could even self-provision those
4 facilities?

5 A Correct.

6 Q Thank you.

7 MR. REICHMAN: I have no further questions for
8 Mr. DiTirro.

9 ALJ CROWLEY: Thank you. Ms. Hopfenbeck?

10 --ooOoo--

11 REDIRECT EXAMINATION

12 BY MS. HOPFENBECK:

13 Q Actually, Mr. DiTirro, I'd like to talk to you a
14 bit about the last line of questioning. First of all, Mr.
15 Reichman asked you whether it was possible for WorldCom to
16 self-provision facilities to -- over which it would carry
17 intraLATA toll calls.

18 Is that -- is WorldCom capable of
19 self-provisioning such facilities in all cases?

20 A Well, we're talking about the economics of it or
21 the physical possibility of it?

22 Q Can you discuss the limitations?

23 A Obviously, the limitations are that where there
24 are other providers making dedicated facilities available
25 at a very low price, it may not be possible for --

1 economically possible for a carrier such as WorldCom to
2 replicate that. So their choice would be to use the
3 facilities that are being provided by the carrier in
4 place.

5 Q And what are the types of customers or what's the
6 characteristic of the customer to whom WorldCom would
7 typically consider self-provisioning a circuit to carry
8 intraLATA toll traffic?

9 A Self-provisioning?

10 Q Yes.

11 A Usually a very large customer.

12 Q Okay. Now, Mr. Reichman also -- actually, the
13 next question I might ask you, are you aware of how -- when
14 WorldCom does provision intraLATA toll service by way of
15 special access facilities, does it bill its customers on a
16 per minute of use for the toll calls that travel on those
17 facilities?

18 A Typically not. Typically it bills a flat fee.

19 Q Now, Mr. Reichman also asked you a hypothetical
20 addressing your testimony at page 18 and 19 that indicated
21 that those competitors that are forced to reduce their toll
22 rates to meet the price levels set as a result of this
23 proceeding must do so by reducing their margins.

24 As part of that hypothetical, he postulated that
25 WorldCom had a plan in place that was low, that was

1 time WorldCom is permitted to offer interLATA toll calls as
2 well as intraLATA toll calls to customers in the state of
3 Oregon?

4 A Yes.

5 Q And Qwest is not at this time permitted to offer
6 interLATA toll calls to Oregon customers, correct?

7 A That's correct.

8 Q And, indeed, are you aware that when WorldCom
9 makes marketing pitches to customers, they lead off with
10 their interLATA rates?

11 MS. HOPFENBECK: I'm going to interpose an
12 objection because my redirect didn't touch on this topic at
13 all.

14 MR. REICHMAN: Well, her --

15 MS. HOPFENBECK: I think it would be beyond the
16 scope of my redirect.

17 MR. REICHMAN: Your redirect asked him why they
18 might price below Qwest and what they might to do in
19 response to attract customers. I would like to show that
20 WorldCom can offer the fact that they can use both intra
21 and interLATA calls as a basis to attract customers as
22 well.

23 MS. HOPFENBECK: I will still submit that this
24 doesn't have anything to do with the narrow questioning
25 that I addressed to this witness.

1 ALJ CROWLEY: I'll note your objection, but I'm
2 going to allow the question.

3 MR. REICHMAN: Thank you.

4 Q BY MR. REICHMAN: Do you have my question in
5 mind?

6 A No. If you'll repeat it.

7 Q Sure. Are you aware that when WorldCom makes
8 marketing pitches with residential customers such as
9 calling them during dinner, that they lead off with their
10 interLATA prices?

11 A I'm not aware of that.

12 Q Have you ever been called in the evening by
13 WorldCom soliciting your business?

14 A No. AT&T usually calls me.

15 Q Well, okay. Does AT&T lead off with their
16 interLATA prices?

17 A I usually don't let them get that far because I
18 tell them that, you know, I already have a plan. So I'm
19 not aware of hearing any pitch where the word "interLATA"
20 or "intraLATA" was used.

21 Q What about interstate or --

22 A I'm not really aware of that.

23 Q You're just not aware of how they market?

24 A (Nods head in the affirmative)

25 Q Okay. Lucky you.

1 A Well, I'm aware of how they market. I'm not
2 aware of them jurisdictionally identifying their services.

3 Q Okay. But, as you said, WorldCom, obviously, can
4 offer both services today?

5 A That's correct.

6 Q Now, would you agree that for an Oregon customer,
7 the Oregon customers can reach a lot more other people in
8 the United States by calling interLATA than they can reach
9 by calling intraLATA, correct?

10 A I guess the math would prove that out. Yes,
11 there's more people in the whole United States than there
12 are in one LATA in Oregon.

13 Q Probably a hundred times as many more people.
14 You're not familiar with the populations perhaps?

15 A Not -- no, I'm not.

16 Q Do you have any information that compares the
17 volume of WorldCom's interLATA to intraLATA toll calls?

18 A No.

19 MS. HOPFENBECK: Again, I'm going to object again
20 because I think we really are now going beyond the scope of
21 the redirect.

22 MR. REICHMAN: Well, he's answered and I'm moving
23 on.

24 Q BY MR. REICHMAN: Ms. Hopfenbeck asked you a
25 question about I believe it was the characteristics of

1 customers for whom WorldCom might consider self-
2 provisioning a special access circuit. And you responded
3 "very large customers".

4 Do you have that in mind?

5 A Yes, I recall that.

6 Q When you said "very large", were you referring to
7 the volume of toll traffic?

8 A Yes.

9 Q Not necessarily the size of the customer or the
10 size of the business?

11 A Not even the physical size of the customer, you
12 have to weigh over 250 pounds, or the size of the company
13 itself or how much traffic they would be offering to give
14 to the carrier.

15 Q Right.

16 A To WorldCom.

17 Q They had a lot of minutes to offer?

18 A That's the large part, yes.

19 Q And that -- and would you agree that where
20 WorldCom is considering self-provisioning a special access
21 to a customer with a large volume of toll calls, WorldCom
22 would consider both the volume of its interLATA calling as
23 well as its intraLATA calling?

24 A If that's what they're offering, yes.

25 Q If they're offering both of those services?

1 A Right.

2 Q Ms. Hopfenbeck asked you a question and I just
3 want to make sure that we're clear on this. She asked you
4 when Qwest -- I'm sorry -- when WorldCom uses special
5 access for a customer, do they bill that customer on a per
6 minute of use basis or a flat basis effect for the toll
7 calls.

8 Do you recall that?

9 A Yes.

10 Q And I want to make sure I understand I guess the
11 question and answer. In a situation where WorldCom serves
12 a customer over a special access, is it your understanding
13 that they bill them for the toll part of the calls on a
14 flat basis or for the toll part of the calls on a minute of
15 use basis?

16 A It's my understanding that they bill them on a
17 sort of a circuit by circuit basis. They're not measuring
18 the minutes that the particular carriers -- the customer is
19 putting into the WorldCom network.

20 Q For the access part or for the toll part?

21 A For the service in total I believe.

22 Q So they bill them a -- your understanding is that
23 WorldCom would bill customers served over special access a
24 flat rate regardless -- well, a flat rate for service?

25 A I should correct that.

1 Q Please.

2 A I do know that they will bill them a flat rate
3 for a circuit that they set up for them. As to whether
4 they then bill them a per minute rate, I don't recall
5 that.

6 Q Okay. So your testimony is that you believe they
7 would bill a flat rate for the special access circuit
8 itself and you don't know whether they bill for the toll
9 service on a flat rate or a per minute of use basis?

10 A I don't know that.

11 Q So you're in agreement with what I said?

12 A Yes.

13 Q Thank you.

14 MR. REICHMAN: Nothing further.

15 ALJ CROWLEY: And, Ms. Hopfenbeck?

16 MS. HOPFENBECK: Just a minute.

17 --ooOoo--

18 REDIRECT EXAMINATION

19 BY MS. HOPFENBECK:

20 Q I'd like to turn your attention, Mr. DiTirro, to
21 Qwest Exhibit 237, the second page of that exhibit.

22 A The second page?

23 Q Yes.

24 A Okay.

25 Q And going down to the fourth line, the sentence

1 that begins "WorldCom" in the middle of that line. Can you
2 read that sentence, please?

3 A Starting "This is equivalent"?

4 Q No. Starting with "WorldCom". Sorry. The fifth
5 line on the page.

6 A Yes. "WorldCom does not bill customers that it
7 serves using dedicated facilities on a per minute basis."
8 Go on?

9 Q Yes.

10 A "Just as WorldCom pays a flat rate to Qwest to
11 lease the special access facilities, WorldCom bills its end
12 users served with dedicated facilities on a per circuit
13 basis."

14 Q Thank you.

15 MS. HOPFENBECK: I have nothing further.

16 ALJ CROWLEY: Thank you. Thank you very much,
17 Mr. DiTirro. You're excused as a witness.

18 THE WITNESS: Thank you.

19 ALJ CROWLEY: It's ten of 12. I'm going to
20 suggest we break now for lunch and be back here at 1:15
21 because we do have a full afternoon. And we'll start with
22 Mr. Ball.

23 (Recess taken)

24 ALJ CROWLEY: Let's go ahead and open up the
25 record. And this is Staff's witness.

1 MR. JONES: Your Honor, before calling Mr. Lance
2 Ball, I'd like to try to take care of one record keeping
3 matter.

4 ALJ CROWLEY: Sure.

5 MR. JONES: Mr. Sloan, Staff's witness, hasn't
6 been put on anybody's list for cross. But I would like to
7 officially move to have his prefiled testimony, Staff
8 Exhibit 13, 14, and 15, admitted to the record.

9 ALJ CROWLEY: Any objection?

10 MR. MANIFOLD: No.

11 ALJ CROWLEY: All right. Those are admitted,
12 Staff 13, 14, and 15.

13 MR. JONES: Thank you, Your Honor. At this time
14 Staff would like to call Mr. Lance Ball to the stand.

15 ALJ CROWLEY: Mr. Ball, would you stand, please,
16 and raise your right hand.

17 (Witness sworn by the Administrative Law Judge)

18 ALJ CROWLEY: Thank you. Please be seated.
19 State and spell your name for the record.

20 THE WITNESS: My name is Lance L. Ball; B-a-l-l.

21 ALJ CROWLEY: Thank you. Mr. Jones?

22 --ooOoo--

23 LANCE L. BALL,

24 Thereupon called as a witness on behalf of Staff, first
25 duly sworn, was examined and did testify as follows:

1

2

DIRECT EXAMINATION

3 BY MR. JONES:

4 Q Mr. Ball, did you sponsor Staff prefiled
5 testimony marked as Staff Exhibit 1 and Staff Exhibit 2?

6 A I did.

7 Q Do you have any corrections to that testimony?

8 A No, I don't.

9 Q So if I was to ask you the same questions in that
10 testimony today, your answers would be the same?

11 A Yes, they'd be the same.

12 MR. JONES: At this time Staff requests that
13 Staff Exhibit 1 and Staff Exhibit 2 be admitted to the
14 record.

15 ALJ CROWLEY: If there are no objections to those
16 exhibits, they're admitted.

17 MR. JONES: Thank you, Your Honor. At this time,
18 Your Honor, Mr. Ball is available for cross examination.

19 ALJ CROWLEY: Thank you. Mr. Reichman?

20 MR. REICHMAN: Thank you.

21 --ooOoo--

22

CROSS EXAMINATION

23 BY MR. REICHMAN:

24 Q Good afternoon, Mr. Ball.

25 A Good afternoon.

1 Q Your testimony presents a summary of Staff's rate
2 spread proposal, correct?

3 A The rate spread, yes, it does.

4 Q One area in which Staff's proposal differs from
5 Qwest's proposal has to do with residential local service,
6 correct?

7 A Yes.

8 Q And you've quantified in your testimony or in
9 your exhibit the difference in the revenue impact between
10 Qwest's and Staff's proposal on residential local service
11 as approximately \$10.4 million, correct?

12 A Yes. The exact figure is \$10.371 million. And
13 it's found in Staff 2, Ball 4, rate design.

14 Q Thank you. Now, another area where Staff and
15 Qwest differ in their proposals is with respect to EAS, or
16 extended area service, correct?

17 A Correct.

18 Q And in that case, the difference between Qwest's
19 proposal and Staff's proposal is also approximately \$10.4
20 million; is that correct?

21 A That is correct.

22 Q And in the first instance, Qwest's proposal would
23 raise residential local service by approximately 10.4
24 million more than Staff's proposal, correct?

25 A Yes.

1 Q And in the second instance, with respect to EAS,
2 Qwest's proposal would reduce EAS revenues by approximately
3 \$10.4 million more than Staff's proposal would, correct?

4 A Correct.

5 Q Now, suppose as a hypothetical, suppose that the
6 Commission were to adopt Qwest's proposal with respect to
7 residential basic service and increase revenues by the
8 amount proposed by Qwest, in that case would you recommend
9 that the Commission then decrease EAS rates by a greater
10 amount to account for that difference?

11 A Could you restate that question again, please?

12 Q Sure. Maybe I could state it a better way. Just
13 to set the stage again, Qwest proposes raising residential
14 rates by \$10.4 million more than Staff proposes raising
15 residential rates?

16 A Yes.

17 Q And Qwest proposes reducing EAS rates by \$10.4
18 million more than Staff proposes reducing EAS rates?

19 A Yes.

20 Q Now, suppose that the Commission were to adopt
21 Qwest's proposal with residential basic rates.

22 A Yes. Okay.

23 Q There's some adjustments would need to be made in
24 what Staff has proposed in that case, correct?

25 A Yes. In that case, if the Commission accepted

1 Staff's -- excuse me. Qwest's local exchange rate design,
2 there would have to be an adjustment upwards of
3 approximately \$10.371 million.

4 Q From Staff -- from what Staff has proposed?

5 A From what Staff proposed to the Qwest position,
6 correct.

7 Q Would you have a recommendation that the
8 Commission should apply that adjustment to decrease EAS
9 rates by approximately that additional amount?

10 A Is that a question?

11 Q Yes.

12 A Or is that part of the hypothetical?

13 Q No. That's a question. Would that be part of
14 your recommendation of where they put that extra revenue
15 reduction?

16 A If it were left purely up to me, I think yes,
17 that would be true, I would do that. However, I would
18 hesitate -- because we do this as a team approach, it
19 wouldn't be just left up to me. It would be discussed
20 among the circle of people who review and balance all the
21 interests in the rate design and rate spread.

22 Q Okay. And in developing the proposal that Staff
23 has presented in its evidence in this case, was that
24 considered, that sort of a trade off between residential
25 basic and EAS?

1 A Well, I guess what you're asking me is whether or
2 not we considered Qwest's original proposal.

3 Q Well, I know you considered it to some extent.
4 But I'm wondering if in considering it, you looked at those
5 two categories as sort of balancing each other to some
6 extent?

7 A Well, it's true, the increase in one is almost
8 identical to the decrease in the other. And so if you
9 invert them, it would make you wonder whether or not the
10 opposing case would be acceptable to Staff.

11 I'm not the expert on EAS, even though I deal
12 with EAS every year. But in this particular case, it's Jim
13 Stanage, as he is with local service. So I think that
14 maybe these questions are better asked of Mr. Stanage.

15 However, I can say that there were some problems
16 with the -- with the company's original proposal with
17 respect to EAS. And for those reasons, it just didn't seem
18 reasonable to go along with the company case.

19 Q Okay. Well, I'll explore that more with Mr.
20 Stanage.

21 A Okay.

22 Q Let me just ask you one more question on that
23 topic. Would you agree that reductions in EAS rates
24 largely benefit residential customers in Oregon?

25 A Yes. And I think you can find that clearly

1 outlined in Staff 2, Ball 3, rate design.

2 Q Staff 2, Ball 3?

3 A Correct. There's a line item that says "extended
4 area service". And you can see that the benefit primarily
5 accrues to the tune of \$7.319 million to residential, and
6 in the business rate reduction portion, is approximately --
7 isn't approximately. Is \$4 million.

8 Q And any -- if the Commission were to allocate a
9 greater proportion of the revenue reduction in this case to
10 EAS in general, that would continue to affect these
11 different classes in the same proportion, correct?

12 A I would hope so. Subject to check.

13 Q Would that be your recommendation?

14 A Again, I think you'd have to talk to Mr. Stange
15 who is the Staff expert on the EAS and local in this case.

16 Q Okay. Thank you.

17 Now, with respect to the overall rate design in
18 this case, this rate design is based on U.S. West's August,
19 1997 billing units, correct?

20 A The entire rate design?

21 Q Right.

22 A No, it is not.

23 Q Well, are you familiar with the stipulation that
24 the Commission approved in setting the revenue requirement
25 issues in this case?

1 A I've read it several times. The last time I saw
2 it I guess was probably -- or examined it was probably, oh,
3 seven or eight months ago.

4 Q Okay. And you're aware that there was a
5 stipulation that the Commission approved?

6 A Oh, yes.

7 Q And does it ring a bell that they approved it in
8 Order 00190; does that sound like the right order number to
9 you?

10 A Could you repeat that order number again?

11 Q 00190.

12 A I think that that's probably correct. That
13 sounds familiar.

14 Q BY MR. REICHMAN: Okay. And I don't know if we
15 need to ask the Commission to take official notice of that
16 order since it is in this proceeding. Should we need to do
17 that, we will do that.

18 ALJ CROWLEY: It's part of the UT 125 record.

19 MR. REICHMAN: Okay.

20 Q BY MR. REICHMAN: And do you recall that part of
21 that stipulation said that this rate design was to be,
22 quote, based on U.S. West's August, 1997 billing units,
23 closed quote?

24 A As I recall, yes, that was the mid-point of
25 the -- of the test year, which runs from March, 1997 to

1 February, 1998. And the interesting thing is that the
2 mid-point, August 19, 1997, was meant to be the month for
3 the -- for the determination of rate design in revenues,
4 revenues for all services except for toll services and
5 switched access.

6 In the case of toll services and switched access,
7 the period of March, 1997 through February, 1998 was a
8 period to be used.

9 Q And where are you getting all that from?

10 A That's my understanding from the stipulation.

11 MR. REICHMAN: Okay. May I approach the witness,
12 Your Honor?

13 ALJ CROWLEY: Go ahead.

14 Q BY MR. REICHMAN: Mr. Ball, I'm going to show you
15 Order Number 00190, Appendix A, page 5 of 14. And I'll
16 just ask you, if you would, to read into the record from
17 where it says the first line, "U.S. West agrees".

18 A Okay. From the beginning of this clause?

19 Q Correct.

20 A To the semi-colon or the colon?

21 Q To there.

22 A Okay. It reads, "U.S. West agrees to implement
23 within 45 days of the expiration of said final disposition
24 an ongoing annual revenue reduction in the amount of \$63
25 million from current rates based upon U.S. West's August,

1 1997 billing units on the following terms and conditions."

2 Q Thank you. So this stipulation you would agree
3 requires this revenue reduction of \$63 million, which we're
4 doing in this case, to be, quote, based upon US West's
5 August, 1997 billing units?

6 A I believe, again, that was for every service
7 except for the toll services and switched access. That's
8 my recollection and the understanding -- Staff's
9 understanding from the stipulation.

10 Q And then do you believe that this stipulation
11 reflects that one exception?

12 A Well, I haven't examined the entire stipulation.
13 I only saw a little piece of it.

14 Q Would you like to examine the entire
15 stipulation?

16 A Why not?

17 Q Well, and we could do it one of two ways; either
18 I would have you take the time to do that now or perhaps if
19 it's okay, your counsel could point that out to you later.
20 It might be quicker.

21 MR. JONES: Well, I guess I object. To clarify
22 what you're trying to get at, I think Mr. Ball's testified
23 to what his belief is based upon the stipulation.

24 MR. REICHMAN: Okay. And he said that he thought
25 that language was in here. So I guess I'll ask him to find

1 that for me because I'd appreciate that if you could. If
2 that's all right, Your Honor.

3 ALJ CROWLEY: Go ahead.

4 MR. REICHMAN: It's my own copy, so I won't --

5 THE WITNESS: I won't lose it.

6 MR. REICHMAN: Take your time.

7 ALJ CROWLEY: Why don't we go off the record
8 while Mr. Ball is looking at the stipulation.

9 (Recess taken)

10 ALJ CROWLEY: We're back on the record.

11 Q BY MR. REICHMAN: Okay. Mr. Ball, let me
12 re-orient you, if I may. Before we took a break, I showed
13 you part of the stipulation approved in Order Number 00190,
14 which stated that the rate design was to be, quote, based
15 on U.S. West's August, 1997 billing units, correct?

16 A That's a Qwest contention, yes.

17 Q Pardon me?

18 A That's a Qwest contention, yes.

19 Q It's my contention that that's what that says?

20 A Yes.

21 Q Okay. Does that -- well, didn't you read that
22 sentence into the record or part of that sentence into the
23 record?

24 A I did. But I didn't read the following terms and
25 conditions.

1 Q Okay.

2 A I only read out of context.

3 Q Okay. Fair enough. But at least the part that
4 you read into the record, you read it accurately, correct?

5 A I read it accurately, yes. Word for word.

6 Q Great. And then we took a break and you have had
7 a chance now to review the entire stipulation?

8 A Yes. It's a long stipulation, approximately 40
9 pages in length with lots of financial exhibits. But I
10 have reviewed it in about ten minutes.

11 Q Okay. And is there any other terms -- are there
12 any other terms in the stipulation that direct how the
13 Commission is to perform the rate design, specifically with
14 respect to what sort of billing units it should be using?

15 A Yes. I think it's indicated possibly in an
16 indirect manner. But I think it would be found on the same
17 page, page 5 in paragraph B.

18 Q Do you mind if I look over your shoulder?

19 A Certainly. Of course you can. Right here. And
20 basically what it says -- I'll read the first provision.
21 It says, "Temporary bill credits in switched access rate
22 reduction will begin on the effective date on the refund
23 described in paragraph 1 above", et cetera. So it talks
24 about switched access rate reduction.

25 The second provision says, "Temporary bill

1 credits in switched access rate reduction will be based on
2 an analyzed amount of 63 million will be credited monthly",
3 with a notation "temporary monthly credit per PUC order".

4 The third provision says, "The amount of the
5 temporary bill credits in switched access rate reductions
6 shall be based upon the customer's class of service and
7 shall be calculated as set forth on Exhibit B."

8 Q Can I stop you for a second, please. I just want
9 to clarify this.

10 A Sure.

11 Q So you're relying on the provisions all under the
12 heading small b on page 5, correct?

13 A Yes. Yes, I am.

14 Q Okay.

15 A Well, I also have other arguments as well.

16 Q Okay. Well, so far this is what you've talked
17 about?

18 A Yes.

19 Q Let me, if I may, just clarify what this is.
20 Now, ahead of that is a heading A, correct?

21 A Yes.

22 Q And does that not start out by saying, "Permanent
23 rates incorporating the \$63 million revenue reductions
24 shall be established at a rate design phase of Docket UT
25 125"?

1 A It says that, yes.

2 Q Okay. New, heading b starts out by saying,
3 "Prior to the implementation of the rates described in
4 paragraph 2a above, U.S. West will give temporary bill
5 credits to its Oregon local service customers who subscribe
6 to the services set forth in on Exhibit B and make a
7 temporary rate reduction for its switched access customers
8 on the following terms and conditions."

9 A Yes.

10 Q Okay, Now, just to clarify, you're aware that at
11 the current time prior to rates from this case going into
12 effect, Qwest is providing temporary bill credits to Oregon
13 local service customers? Are you aware of that?

14 A Yes.

15 Q And you're also aware that at this current time
16 Qwest is also making a temporary rate reduction for its
17 switched access customers, correct?

18 A Yes.

19 Q And isn't it true that all of the terms in
20 heading b, including the ones that you previously referred
21 to, relate only to the temporary bill credit issue, not to
22 the permanent rate reductions referenced in paragraph a?

23 A Well, that's a confusing part. I'm not sure if
24 that's really true or not. I think -- I think the
25 methodology that's being used for -- well, not the entire

1 methodology, but the use of 12 months of data to determine
2 rates and bill credits was used for switched access. And
3 that's been the reasoning for the estimate Staff's made on
4 rate reductions for MTFs and switched access, giving 12
5 months of data and not just one point, which is August,
6 1997.

7 Q Right. So are you saying that Staff has
8 interpreted this phrase, "based upon U.S. West's August,
9 1997 billing units" to apply to a 12 month period that
10 begins six months before August, 1997 and begins six months
11 after 1997?

12 A Yes.

13 Q Okay. And it's true that --

14 A Yes.

15 Q -- that Qwest, indeed, did that as well when it
16 filed its rate design? Did it also use billing units for
17 the six months prior to August of '97 and six months
18 following August of '97?

19 A You're talking about in the current filing of
20 Qwest?

21 Q Correct. Are you aware of that?

22 A Well, yeah. Because Mr. Teitzel has at the top
23 of his pages I believe March, 1997 to February of 1998.

24 Q And those --

25 A So he's using the same -- the same period of time

1 that we are.

2 Q And that's the 12 months that surround August,
3 1997?

4 A Right. August of 1997 being the mid-point.

5 Q Correct. And you're aware that demand for
6 services fluctuates throughout the year?

7 A Absolutely.

8 Q Has some seasonality?

9 A Yes, it does.

10 Q So it's reasonable to interpret the term "based
11 upon U.S. West's August, 1997 billing units" to use a 12
12 month period that surrounds that to, in effect, account for
13 any seasonal effects?

14 A Yes.

15 Q Okay. Now, other -- now, you've pointed to
16 certain paragraphs in b that you say support your testimony
17 earlier, and I cut you off.

18 A Uh-huh.

19 Q Now, is there anything else in b or anything else
20 in this stipulation that you'd like to refer to?

21 A I have to get my frame of mind that I was in.
22 No, I think actually I've been able to mention verbally in
23 the last interlude everything I needed to mention.

24 Q Great. Thank you. And I'll take this back, if
25 that's okay. And I'll resume my seat.

1 So if I understand you correctly, you understand
2 that term "based upon U.S. West's August, 1997 billing
3 units" to mean for the 12 months that surround August,
4 1997?

5 A Yes. With August, 1997 being a mid-point of that
6 test year period.

7 Q Right. And does Staff's rate design use that 12
8 month period for billing units for all services?

9 A No.

10 Q Okay. There's one exception, correct? There's
11 one exception; Staff doesn't use those billing units for
12 that 12 month period billing period for one service, which
13 is toll, correct?

14 A Well, I think it's also switched access as well.
15 I believe.

16 Q Okay. But you know for sure that Staff does not
17 use the billing units for that 12 month period for toll,
18 right?

19 A Does not? No. They do use the 12 month period.

20 Q Okay. So I'm confused. Does Staff's rate design
21 proposal use the billing units for that 12 month period for
22 all services?

23 A Well, for toll, in order to come up with a
24 revenue effect, it uses that period. Okay. For Centrex,
25 for local exchange, residential, business services, for

1 EAS, we use the mid-point of the test year period, which is
2 August of 1997.

3 MR. REICHMAN: Could you read back that last
4 answer, please.

5 (The court reporter read back the requested portion)

6 MR. REICHMAN: Thank you.

7 Q BY MR. REICHMAN: Now, isn't it true that Staff
8 proposes adjusting volumes for that 12 month period for
9 toll based upon a projected demand response to the price
10 changes in intraLATA toll resulting from this proceeding?

11 A From stimulation?

12 Q Correct.

13 A Yes.

14 Q And that is the only service that Staff proposes
15 adjusting the volumes for in this proceeding for
16 stimulation, correct?

17 A Staff only proposes a stimulation adjustment on
18 toll services. It doesn't propose a stimulation on any
19 other service, although Staff did ask in interrogatories
20 earlier in the proceeding for price elasticity factors for
21 every service. And we were told by Qwest that those price
22 elasticity factors were not available for the other
23 services. Otherwise we would have.

24 Q You would have?

25 A We would have.

1 Q So you would have proposed --

2 A Or we would have at least considered it.

3 Q If you had current stimulation studies, you would
4 have proposed adjusting test volumes from the 12 month test
5 period for all services?

6 A Well, we would have at least for local and --
7 local residential and business exchange services and
8 extended area service, we would have used stimulation -- I
9 should say price elasticity factors to determine
10 stimulation with a starting point of probably the mid-point
11 of the test year period, which was August of 1997.

12 We wouldn't need the full 12 month period because
13 it's really only with toll that it's -- in switched access
14 it's a big concern because of seasonality factors.

15 Q Okay. Now, you've presented testimony concerning
16 certain adjustments to test year revenues in Phase I of
17 this case, correct?

18 A I did.

19 Q And in that phase, the Commission utilized a 1995
20 test year, correct?

21 A I really can't recall. I can't recall. I'm
22 sorry.

23 Q That case went to hearing in 1996. Does that
24 ring a bell?

25 A That sounds -- that sounds right.

1 Q And the Commission applied annualization and
2 normalization adjustments to the revenue from that test
3 year, correct?

4 A That is correct. Those were -- those were
5 adjustments in the case.

6 Q And that's what the Commission typically does,
7 applying those sorts of adjustments?

8 A Yes.

9 Q And in that case the Commission also forecast
10 U.S. West's revenues to the mid-point of what it believed
11 would be the rate effective period, correct?

12 A Would you say that again, please?

13 Q Sure. In Phase I of this case the Commission
14 also forecast U.S. West's revenues to the mid-point of what
15 it believed would be the rate effective period for rates
16 resulting from this case.

17 Do you recall that?

18 A The date when rates would go into effect?

19 Q Well, the mid-point of the period that the
20 Commission thought rates would be effective.

21 A I think that may be accurate.

22 Q Okay. And let me ask you it a different way,
23 which may be easier for you to answer.

24 In Phase I of this case the Commission forecast
25 U.S. West's revenues to August, 1997, correct?

1 A In Phase I of the case?

2 Q Yes.

3 A Honestly, I can't remember. That may be true. I
4 just can't remember.

5 Q Okay. And that's fine. I believe the orders
6 reflect what the Commission did.

7 The forecasts that the Commission made are also
8 part of the revenue requirement that was approved in Order
9 00190, correct?

10 A I believe that's correct, yes.

11 Q Now, isn't it true that applying a stimulation
12 factor to the volumes from that year, the units from that
13 year, projects revenue effects beyond August, 1997? Would
14 you agree with that?

15 A I don't think that that's quite accurate. The
16 way I believe Staff views a stimulation factor -- and it
17 could work the other way. If prices were going up, there
18 would be a diminution of demand.

19 We look at it as a kind of performa adjustment
20 over current revenues. That is to say you understand that
21 there's a -- you have a certain known quantity and you have
22 a price or a rate change. That price or rate change
23 produces a certain change in revenues, okay. And that the
24 stimulation or the diminution, depending on whether the
25 prices go up or down, is really more or less a performa

1 overlay on current revenues and not necessarily a view of
2 what future revenues will be, although future revenues will
3 hopefully approximate that.

4 Q Were you present yesterday when Mr. Turner
5 testified?

6 A For part of it, yes.

7 Q Okay. Did you hear when he testified that the
8 purpose of using a stimulation factor is to project what
9 the revenue effect or price change over the year following
10 the price change?

11 A I don't recall that.

12 Q You don't recall that?

13 A I'm sorry.

14 Q The record will reflect what Mr. Turner said.

15 MR. REICHMAN: If I could have one minute, Your
16 Honor?

17 ALJ CROWLEY: All right.

18 MR. REICHMAN: I have no further questions at
19 this time.

20 ALJ CROWLEY: Thank you. Mr. Manifold?

21 MR. MANIFOLD: Yes, Your Honor. I'd like to ask
22 that official notice be taken of some pages from the
23 transcript in the Docket UM 731 matter, Qwest's. That's
24 pursuant to Submission Rule 800-014-0050(1)(e). And I'd
25 like to say what the transcript pages are, if that's the

1 right thing. The transcript pages would be page 493 and
2 pages 534 through and including page 541.

3 ALJ CROWLEY: Will you supply those pages for the
4 record?

5 MR. MANIFOLD: I can do so if you would like.

6 ALJ CROWLEY: Thank you. Any objection to taking
7 official notice of those pages?

8 MR. REICHMAN: Well, not knowing what's in there,
9 I don't know that I can comment on the relevance of them.
10 So I'm at a little bit of a loss to object.

11 ALJ CROWLEY: If your objection is going to be
12 relevance objection, we can leave that open until you've
13 had time to look at that.

14 MR. REICHMAN: I appreciate that. My other
15 concern would be that since he's only referencing several
16 pages, that it might be necessary to supplement that
17 reference with that request.

18 ALJ CROWLEY: If that's necessary, you're free to
19 do that.

20 MR. REICHMAN: Thank you. Then no objection.

21 MR. MANIFOLD: Your Honor, I would suggest if
22 Qwest or any other parties find that the matters dealt with
23 within these pages are incomplete, because there are other
24 pages that, you know, finish it, which I hope there aren't,
25 but if there are, I would suggest that perhaps counsel

1 consult on those and arrive at what would be the right
2 package to add to that.

3 ALJ CROWLEY: All right. I think the point for
4 right now is that the parties are free to supplement if
5 they feel that that's necessary.

6 MR. REICHMAN: Thank you.

7 ALJ CROWLEY: And with that understanding, we'll
8 take official notice.

9 --ooOoo--

10 CROSS EXAMINATION

11 BY MR. MANIFOLD:

12 Q I do not intend to ask any questions about those
13 pages.

14 A Okay. Thank you.

15 Q I do have a couple of questions. Counsel for
16 Qwest asked you in his first set of questions what your
17 recommendation would be if the Commission were to accept
18 the Qwest proposal regarding residential local exchange.

19 Do you recall that?

20 A Yes, I do.

21 Q And he pointed out that -- or you pointed out
22 that on your Staff 2, Ball 4 -- it's almost like a baseball
23 term. Sorry.

24 That the amount of the Qwest proposed residential
25 increase differential is a similar number to the amount of

1 the extended area service.

2 My question to you is Staff, I would presume,
3 would continue with its current position and wish to have
4 the result be as similar to its current position as
5 possible. If the Commission were accept one element that
6 was different, it would still think that its original case
7 was the position to be in?

8 A Is that a question?

9 Q That's a question, yes. As a general matter.

10 A Okay. Would you repeat that again, please?

11 Q Let me just get more specific. The EAS
12 differential on your exhibit of 10.442 million is not an
13 offset to customers of the residential difference of 10.371
14 million, is it, since the EAS is split over a customer base
15 that's different than the 10.371 million customer base?

16 A Well, that's actually true because extended area
17 service applies to business customers as well as
18 residential customers. That's correct.

19 Q So if the Commission -- so there would not be an
20 offset -- there would be an offset in the total numbers but
21 there would not be an offset from the customer's
22 perspective.

23 A Yes, that's correct.

24 Q In that same hypothetical I guess, if the
25 Commission were to accept the residential local exchange

1 proposal of the company, wouldn't the way to get closest to
2 the original Staff recommendation be to take the extended
3 area service differential of 10.442 and apply that entirely
4 to residential EAS in order to offset the 10.371, and then
5 you would be closest to the Staff position?

6 A Yes.

7 Q And would that be your recommendation?

8 A I think that is correct.

9 Q And would that be your recommendation for what to
10 do in that hypothetical?

11 A Again, I'm not the expert on local exchange and
12 EAS. Mr. Jim Stanage is. And there are considerations
13 with respect to EAS rate designs for business and
14 residential. And before I seek a kind of generalization
15 like that, I would feel really more comfortable if Jim
16 Stanage answered that question.

17 I apologize if it seems nonresponsive. It's just
18 that Mr. Stanage is more aware of the ins and outs of EAS
19 and local rate structure requests than I am. And it would
20 be unfair for me to speak for him to you.

21 Q That's fine. I think you've clarified that's how
22 the numbers would get there. Whether that would be the
23 Staff's recommendation is something that I would defer to
24 him. I'm fine with that.

25 And then just a question or two about price

1 elasticity. Do I understand your testimony this afternoon
2 regarding test period and elasticity to be that an
3 elasticity adjustment is made in order to get the right
4 revenue effect from a price change that takes place during
5 the test period?

6 A Yes.

7 Q In that sense do you view an elasticity
8 adjustment as something that takes place within the test
9 period?

10 A Yes.

11 MR. MANIFOLD: No other questions.

12 ALJ CROWLEY: Thank you. Mr. Jones?

13 MR. TRINCHERO: Your Honor, before we go --

14 ALJ CROWLEY: Yes, please.

15 MR. TRINCHERO: Before we go to redirect, I know
16 that I did not actually have cross examination time set
17 aside for Mr. Ball. However, we did preserve the
18 opportunity to --

19 ALJ CROWLEY: Correct.

20 MR. TRINCHERO: -- to follow up on cross of
21 certain witnesses.

22 --ooOoo--

23 CROSS EXAMINATION

24 BY MR. TRINCHERO:

25 Q Mr. Ball, I'd like to talk to you a little bit

1 about semantics.

2 A Certainly.

3 Q You've been involved in rate making with the
4 Commission now for a number of years, haven't you?

5 A Twenty-two years.

6 Q And you've been involved in prior rate cases for
7 Qwest, then known as U.S. West?

8 A Yes. And also Pacific Northwest Bell.

9 Q Going way back.

10 A Oh, yes.

11 Q And isn't it typical for the Commission to decide
12 on a test year set of data to use in order to base its rate
13 decision?

14 A Well, yes. The question of test period at this
15 late stage of the game is usually something that never
16 comes up. It's very rare to have to test period questions
17 arise this late in the proceeding.

18 Q Now, in prior rate cases wherein a telephone
19 utility's rates were being set based on a test year period,
20 or a -- let me just say a test period.

21 A Okay.

22 Q It may not have been 12 months. It may have been
23 some other test period. Isn't it true that this Commission
24 has used stimulation factors for toll in the past?

25 MR. REICHMAN: Your Honor, I want to object to

1 the form of the question. This is, obviously, a friendly
2 cross and I object to the leading question.

3 ALJ CROWLEY: Would you rephrase the question,
4 please.

5 MR. TRINCHERO: Well, Your Honor, I'm not sure
6 that it's all that friendly.

7 MR. WEIRICH: You had a "nice to meet you".

8 MR. TRINCHERO: I will try to rephrase.

9 Q BY MR. TRINCHERO: Mr. Ball, has this Commission
10 in the past adopted stimulation factors?

11 A Yes.

12 Q In setting toll rates?

13 A Yes.

14 Q For Qwest or its predecessor companies?

15 A Yes.

16 Q Based on a test year period that was agreed on by
17 the parties?

18 A Yes.

19 Q Thank you.

20 MR. TRINCHERO: I have nothing further.

21 ALJ CROWLEY: Thank you. Mr. Jones, redirect?

22 MR. JONES: Could we please have a short break
23 before redirect, Your Honor?

24 ALJ CROWLEY: Sure.

25 (Recess taken)

1 ALJ CROWLEY: All right. Let's reopen the
2 record. Mr. Jones, do you have redirect for your witness?

3 MR. JONES: Thank you, Your Honor. Just a couple
4 more.

5 --ooOoo--

6 REDIRECT EXAMINATION

7 BY MR. JONES:

8 Q Mr. Reichman asked you some questions regarding
9 why Staff used -- in some demand units why they used August
10 of '97 and why in others they used a 12 month period of
11 March of '97 through February of '98.

12 A Yes, he did.

13 Q When determining annual revenue, the annual
14 revenue effect, why did Staff consider some units for
15 August of '97 and some on the 12 month basis?

16 A Well, Mr. Jones, it's kind of like what I was
17 saying a minute ago with respect to local services and
18 especially business residential services. Extended area
19 service, both residential and business, we use a mid-point
20 of a test period because for those services, for local and
21 residential and business services, EAS, Centrex, the line
22 growth tends to be pretty constant.

23 And by using a mid-point of a test period, we can
24 more accurately come up with an appropriate rate adjustment
25 based upon expected revenues that will be generated from

1 that service by using a mid-point in a test period. That's
2 the reason for doing it, for using a mid-point of test
3 period for non-toll services and non-switched access
4 services.

5 With respect to a toll service or a switched
6 access service, however, we're dealing not with a commodity
7 that grows as a constant rate. We're dealing with
8 minutes. We're dealing with conversation minutes or access
9 minutes with respect to switched access, which are very
10 short little entities. They come and go in a discreet
11 period of time.

12 And in doing so for toll and switched access, we
13 have to have a long period of time that would be the test
14 period itself. And within that test period, in this case
15 from March of '97 to February of 1998, we would have a
16 situation where we would be able to see the entire growth
17 in switched access minutes, or in the case of toll,
18 conversation minutes.

19 And we would be able to pinpoint seasonality,
20 which is very important, especially with respect to pricing
21 toll services. Seasonality, there's such things as the
22 growth in traffic on Mother's Day or Thanksgiving or
23 Christmas or New Years Day. And without capturing the
24 seasonality inherent in certain periods of time, in certain
25 months, you stand a chance of understating the actual

1 revenues that would be generated in a test period with
2 respect to toll or switched access. You could also
3 understate it.

4 So that's why we prefer to look at a 12 month
5 period with respect to switched access and toll services so
6 that we don't understate or overstate the revenues but have
7 a -- we have a feeling of comfort about our estimate of
8 revenues.

9 Q Do you always use a period when looking at toll
10 and switched access like you described?

11 A Yes. As a matter of fact, in every case in the
12 past dealing with ILECs who carry toll, we have looked at
13 stimulation. Or in the case of a price increase, a
14 repression.

15 MR. REICHMAN: Objection. I don't think that --
16 I move to strike. I don't think that's responsive to the
17 question.

18 ALJ CROWLEY: What was your question again,
19 Mr. Jones?

20 MR. JONES: I'm sorry. Let me try to restate the
21 question.

22 Q BY MR. JONES: Do you always -- you were
23 discussing how you use a year to figure -- to calculate
24 toll and switched access.

25 My question was, is that your normal practice or

1 do you deviate that? Do you always calculate toll and
2 switched access using period of time, not a point in time?

3 A Yes.

4 Q Thank you. And I think you were actually -- to
5 take up on your previous answer, what in previous -- in
6 previous cases, have you always applied a regression
7 analysis to toll?

8 A Regression or stimulation analysis. Yes, we
9 have.

10 Q For increases and decreases?

11 A Yes, we have.

12 Q Thank you.

13 MR. JONES: That's all, Your Honor. Thank you.

14 ALJ CROWLEY: Thank you. Follow up?

15 MR. REICHMAN: Yes. Thank you.

16 --ooOoo--

17 RECROSS EXAMINATION

18 BY MR. REICHMAN:

19 Q Mr. Ball, I think you just said that Staff or the
20 Commission uses a 12 month period for toll and switched
21 access to account for seasonality.

22 Is that a fair summary?

23 A Yes.

24 Q Okay. And in this case the 12 month period that
25 you're referring to is March of '97 through February of

1 '98?

2 A Yes.

3 Q In response to I believe it was Mr. Trincherro's
4 question, you said that the Commission has traditionally or
5 always applied toll stimulation in the cases for U.S. West/
6 Qwest and its predecessors.

7 Do you recall that?

8 A Yes. That would be stimulation, and also
9 repression in the event of a price increase.

10 Q Right.

11 A Which has occurred as well.

12 Q It's true, is it not, that the last time the
13 Commission had a general rate case for Qwest, U.S. West or
14 any of its predecessors was in 1990, correct?

15 A No, I don't think that's correct. I think it was
16 UT 102, which was -- I'm trying to remember the year.
17 Subject to check, 1993. 1992. I thought UT 102 was the
18 last general rate case with U.S. West, Qwest formerly
19 U.S. West.

20 Q Okay. If I could show you an exhibit, it might
21 refresh your memory.

22 MR. REICHMAN: Your Honor, I'm looking for an
23 exhibit, a Qwest exhibit that I used with Mr. Turner. It
24 was a letter that related to UT 102. I'm trying to find
25 the exhibit number. I think it might have been Qwest 233.

1 MR. MANIFOLD: Yes.

2 ALJ CROWLEY: I have it here.

3 MR. REICHMAN: Could I ask that the witness be
4 given a copy of it, please.

5 ALJ CROWLEY: It is Qwest 233.

6 MR. REICHMAN: Thank you.

7 Q BY MR. REICHMAN: Mr. Ball, you've been handed
8 Exhibit Qwest 233. Does that refresh your recollection
9 about the time frame for that last rate case that we were
10 referring to?

11 A Okay. I've got an October 23rd, 1991 document
12 from Linda Hamelstrand, presumably to Tom Turner from U.S.
13 West, in front of me.

14 Q Does that refresh your recollection as to the
15 time frame of the decision in that case?

16 A For UT 85?

17 Q UT 85 and UT 102.

18 A Maybe I'm missing something, Mr. Reichman.
19 However, I don't see any reference to UT 102 here. Oh,
20 excuse me. I can on the last page. UT 102/85. Yes.
21 Okay.

22 Q Okay. And that's a letter filing that's in
23 connection with those cases I believe after the order was
24 issued. But does that -- does reviewing that letter at all
25 refresh your recollection as to whether the Commission

1 issued an order in that case?

2 A For UT 102?

3 Q For UT 102.

4 A I would say sometime after 1991.

5 Q Okay. And the Commission's records will reflect
6 when the order was issued, so I won't test your memory on
7 that anymore.

8 But the last rate case that you're referring to
9 when stimulation was applied for U.S. West or a predecessor
10 is the UT 85/UT 102 case?

11 A Yes. UT 85 and UT 102, that's correct. There
12 are columns here for each one of those cases that refer to
13 access stimulation.

14 Q And there was no -- since those cases, there have
15 been no other general rate cases for U.S. West, Qwest or
16 any of its predecessors in the state of Oregon other than
17 the case that we're involved in today; is that correct?

18 A That's correct.

19 Q And the rate case that you're referring to there,
20 UT 85/UT 102, when the Commission conducted that rate case,
21 it did not bifurcate revenue requirement from rate design,
22 correct?

23 A We're talking with respect to UT 102?

24 Q Well, to be honest with you, I'm not sure how UT
25 102 fits in with UT 85. I always thought of the general

1 rate case as UT 85.

2 A Well, it was. UT 85 -- gosh, I wish I could
3 remember all the details of this, but I can't. But
4 generally let me see if I can explain UT 85.

5 There was a distinct revenue requirement phase
6 and rate design phase, as I recall, for UT 85. And UT 102
7 was a rate case. It was meant to be a rapid rate case.

8 When U.S. West opted for what at that time was
9 called the alternative form of regulation or A form, and it
10 was meant to establish the revenue requirement cost bench
11 mark for revenue sharing. If memory serves me correctly,
12 that was UT 102.

13 Q Thank you. That's helpful.

14 In UT 85 did the Commission issue separate orders
15 on revenue requirement and rate design, or did they address
16 that in one?

17 A I believe there was a separate order. And I
18 think it was 90-920 for UT 85, if memory serves me
19 correctly.

20 Q That's the order for UT 85?

21 A Yes.

22 Q And you're distinguishing that from the order in
23 UT 102?

24 A Yes.

25 Q Okay. My question is, did the Commission issue

1 separate orders in UT 85 itself, one referencing or
2 relating to revenue requirement issues and a subsequent one
3 relating to rate design issues?

4 A In UT 85?

5 Q Correct.

6 A I'm almost positive that was the order.

7 Q One order?

8 A That I can't be sure of.

9 MR. JONES: Your Honor, I would object at this
10 point and mention that maybe the orders can speak for
11 themselves on this issue because he doesn't seem to be able
12 to recall that correctly.

13 ALJ CROWLEY: Right. It seems that we're not
14 getting --

15 MR. REICHMAN: No. That's fine. I just wanted
16 to see if he knew to see if we could save time on that,
17 but he doesn't appear to recall exactly. I have no further
18 questions.

19 ALJ CROWLEY: Thank you. And, Mr. Jones?

20 MR. JONES: And I have no further questions.

21 ALJ CROWLEY: All right. Thank you, Mr. Ball.
22 You're excused as a witness.

23 THE WITNESS: Thank you very much.

24 (Witness sworn by the Administrative Law Judge)

25 ALJ CROWLEY: Thank you. Please be seated and

1 state and spell your name for the record.

2 THE WITNESS: First name is Cynthia. Last name
3 Van Landuyt. It's V-a-n L-a-n-d-u-y-t.

4 ALJ CROWLEY: Thank you. Mr. Weirich?

5 --ooOoo--

6 CYNTHIA VAN LANDUYT,

7 Thereupon called as a witness on behalf of PUC Staff, first
8 duly sworn, was examined and did testify as follows:

9

10 DIRECT EXAMINATION

11 BY MR. WEIRICH:

12 Q Ms. Van Landuyt, I think you've sponsored Staff's
13 Exhibits 3, 4, 5, 6, and 7; is that correct?

14 A Yes.

15 Q Do you have any corrections or changes to make
16 those exhibits?

17 A No.

18 Q And your testimony today is the same as you
19 earlier stated in those exhibits?

20 A Yes.

21 Q If I asked you those same questions today, your
22 answers would be the same?

23 A Yes.

24 MR. WEIRICH: I offer Staff's Exhibits 3, 4, 5,
25 6, and 7 for the record and tender the witness for cross.

1 ALJ CROWLEY: There is no objections registered.
2 There were no objections registered to those exhibits.
3 They're admitted, Staff 3, 4, 5, 6, and 7. And it's
4 Qwest's -- examination from Qwest.

5 MR. REICHMAN: Thank you, Your Honor.

6 --ooOoo--

7 CROSS EXAMINATION

8 BY MR. REICHMAN:

9 Q Good afternoon, Ms. Van Landuyt.

10 A Good afternoon.

11 Q I wanted to talk about switched access issues
12 first.

13 A Okay.

14 Q Now, do you agree that the Commission is not
15 required to set switched access rates the same as rates for
16 unbundled network elements?

17 A When you say "required", do you mean any legal
18 authority or --

19 Q That's what I mean.

20 A No. I agree that they are not required.

21 Q And, indeed, your recommendation in this docket
22 is to set switched access rates above UNE rates, correct?

23 A My recommendation is to set rates close to
24 Qwest's current interstate rates for Oregon where those
25 rates are above the UM 844 prices.

1 Q So the rates you set, just to be clear, the rates
2 that you propose for switched access are, indeed, above the
3 rates for the same or similar services based upon UM 844
4 rates?

5 A Yes.

6 Q Are you -- you're aware that UM 844 rates include
7 some contribution to joint and common costs?

8 A Yes.

9 Q So would you agree that the rates set in this
10 proceeding for switched access can include a greater
11 contribution to joint and common costs than the UM 844
12 rates?

13 A They can or that the rates I'm proposing do? The
14 rates that I'm proposing do include.

15 Q Do include a greater contribution than UNE
16 rates?

17 A Yes. Because they are set above the UM 844
18 prices.

19 Q And you believe that that's appropriate,
20 correct?

21 A I believe that my rate design proposal is
22 appropriate, yes.

23 Q Now, you advocate moving intrastate switched
24 access rates towards the interstate rates, correct?

25 A Correct.

1 Q But you don't propose moving them all the way to
2 set them equal, do you?

3 A I believe that most of them are except for the
4 local switching rate.

5 Q And that would still be above?

6 A Yes.

7 Q And just to be clear, the intrastate would still
8 be above the interstate rate?

9 A Yes.

10 Q Now, one of the reasons that you advocate moving
11 intrastate rates towards interstate rates is to remove what
12 you perceive as an arbitrage problem between those two
13 jurisdictions, correct?

14 A Yes.

15 Q And the issue is that the IXCs self-report the
16 jurisdictions of their traffic, whether it's intrastate or
17 interstate, through the use of a percent interstate usage
18 factor, correct?

19 A Yes.

20 Q And that's commonly referred to as the PIU
21 factor?

22 A Yes.

23 Q And you're concerned that IXCs will report usage
24 through the PIU -- through the PIU in the jurisdiction with
25 the lowest rates?

1 A Yes. They have an incentive to do that.

2 Q Now, didn't that incentive exist under the
3 current rate structure?

4 A Yes.

5 Q And any lowering of the intrastate switched
6 access rates will actually reduce that incentive, correct?

7 A Yes.

8 Q You're not aware of any misreporting instances by
9 IXCs in Oregon, are you?

10 A I have no personal knowledge of it, no.

11 Q You also state that you don't believe that Qwest
12 has any incentive to vigorously pursue reporting problems,
13 correct? Misreporting problems.

14 A Because of the current price cap plan that they
15 are under.

16 Q Okay. And I'll get to that. But I just want to
17 make sure I understand. You don't believe that Qwest has
18 an incentive now to vigorously pursue misreporting problems
19 of the PIU?

20 A Right.

21 Q Now, assuming that intrastate rates are higher
22 than interstate rates, isn't it true that Qwest would
23 receive greater revenues if it vigorously pursues any
24 misreporting problems by IXCs?

25 A And what you're implying is that if the IXC

1 reports a PIU that you feel is not correct, that you will
2 work with the IXC to change that PIU?

3 Q Well, let me restate the question.

4 A Okay.

5 Q Let's assume that the Commission sets rates in
6 this proceeding and that the intrastate switched access
7 rates are higher than the interstate switched access
8 rates. Can you assume that with me?

9 A Okay.

10 Q Now, let's suppose that an IXC misreports through
11 the PIU and reports a greater volume in interstate in order
12 to lower their access cost.

13 A Uh-huh.

14 Q Now, if Qwest were able to detect that and pursue
15 it and correct the problem, wouldn't that mean that Qwest
16 would get more revenue because they would be -- the IXC
17 would then be paying a higher percentage under the
18 intrastate rates?

19 A Yes.

20 Q And wouldn't you agree that the possibility of
21 obtaining greater revenue gives Qwest an incentive to
22 pursue misreporting problems?

23 A I suppose.

24 Q And are you aware that Signaling Systems 7,
25 commonly referred to as SS7, provides Qwest with data that

1 it can use to determine whether a toll call is intrastate
2 or interstate?

3 A For originating, originating toll?

4 Q Yes.

5 A I'm aware of the SS7 and the ability to pass
6 ANI. What I'm not familiar with is whether or not that ANI
7 is transferred. You know, how far along the network that's
8 transferred or if it's stripped off at the tandem.

9 Q Okay. Did you review Mr. McIntyre's testimony in
10 this case?

11 A Yes.

12 Q And do you recall that he testified that SS7
13 permits Qwest to obtain that kind of information?

14 A (Nods head in the affirmative)

15 Q Can you answer out loud for the reporter, please.

16 A Yes.

17 Q Do you have any reason to disagree with that
18 testimony?

19 A No.

20 Q Do you believe that lower switched access rates
21 would result in lower toll rates for other IXCs' Oregon
22 customers?

23 A I can't speak to that specifically because I
24 don't know the business plans of the other IXCs. I can
25 speak to previous access rate reductions specifically the

1 Commission's ordered, UM 384, our current access plan in
2 Oregon. And this had to do mostly with the ILECs and
3 removing some of the toll weightings for intrastate toll.

4 And, frankly, I don't remember Qwest lowering
5 their toll rates to reflect any reductions in access
6 payments that they received or that they benefitted from.
7 So, you know, it's up to each individual toll carrier.

8 Q Okay. Let's move on to private line. That's the
9 other topic we addressed, correct?

10 A Yes.

11 Q With respect to private line, you propose setting
12 Qwest's private line rates at the UM 844 UNE rate plus 25
13 percent with one exception --

14 A Yes.

15 Q With some exceptions, correct?

16 A That's right.

17 Q And the exceptions relate to private line NACs?

18 A Yes.

19 Q But other than NACs, you propose setting the
20 private line at UM 844 plus 25 percent?

21 A Approximately 25.

22 Q Thank you for that clarification. Now, are aware
23 that 22 percent is a common discount rate in
24 interconnection agreements with Qwest in Oregon?

25 A I am, although there is a current docket open

1 which I referenced in my testimony for wholesale discounts,
2 which I believe -- I don't know where the rate will come,
3 but it could be that it's lower than that.

4 Q Could be higher too I suppose?

5 A Could be.

6 Q But apart from that -- and you're referring to UM
7 962, correct?

8 A Yes, I am.

9 Q That is ongoing. That has not resulted in any
10 decision, correct?

11 A That's right.

12 Q So as far as what CLECs are paying today, 22
13 percent is a common discount rate?

14 A Yes.

15 Q And the reason that you recommended a 25 percent
16 markup is that this pricing would insure that when a CLEC
17 orders a private line for resale, the discounted rate would
18 not be less than the sum of the required UNEs?

19 A That was my proposal.

20 Q And you believe that it's important to maintain
21 that disparity, if you will, or that relationship?

22 A That the wholesale discount would not result in
23 rates lower than the UM 844 prices?

24 Q Correct.

25 A Yes.

1 Q Yes, you believe that's important?

2 A Well, I believe with the price floor
3 requirements, that I feel that it's necessary to make sure
4 that with the wholesale discount that you're not pricing
5 below the UM 844 prices.

6 Q Oh, I see. So you think it's important that
7 applying the wholesale discount rate to a retail rate, not
8 take the price that a CLEC would pay for that discounted
9 service below the price floor?

10 A That's my understanding.

11 Q Fair understanding. Now, there is an exception,
12 however. And you recommend a markup or markups in the
13 range of 13 to 18 percent for NACs, correct?

14 A Yes, I do.

15 Q And whether it's 13 or 18 or somewhere between
16 depends on which NAC we're talking about?

17 A Yes.

18 Q So if a private line NAC is purchased for resale
19 and the 22 percent discount is applied, wouldn't the price,
20 the discounted price, then be less than the UNE rates?

21 A For that particular private line rate element, it
22 would be. I think it's also fair to explain about the NAC
23 rates and where they're going from where they were at \$9.80
24 for a two wire and 19.60 for a four wire and where they are
25 going now based on the three rate zones.

1 And my reason for applying a lower markup to
2 those was the rate shock of these significantly increased
3 NAC prices.

4 Q Now, with a 13 to 18 percent markup over UM 844
5 rates, the rates you propose are pretty close to the price
6 floor; would you agree with that?

7 A Yes.

8 Q And you're aware that Qwest is proposing somewhat
9 higher rates to ensure that the retail rates stay above the
10 price floor should the cost of the service increase?

11 A They are. But they're also proposing to
12 transition those rates. And in that transition period,
13 they will also be -- they will be below the price floors
14 in that three to five year transition, or two to three.
15 I'm not quite sure.

16 Q And the transition that Qwest proposes is only
17 proposed for rate groups --

18 A 2 and 3.

19 Q 2 and 3.

20 A Yes.

21 Q Now, let's suppose that after this case is done
22 the Commission were to improve -- were to approve increased
23 UNE rates such that the retail NAC rates for private line
24 are below the price floor.

25 Could you just assume that with me?

1 A Uh-huh.

2 Q Would Staff then at that time recommend that the
3 Commission increase the retail price for the private line
4 NAC to stay above the price floor?

5 A I guess I would need a legal interpretation of
6 whether or not we -- the Commission could do that based on
7 622, whether the price caps can be adjusted after this
8 case. I don't know.

9 Q Okay.

10 A That's what you would be asking us, to raise the
11 price cap.

12 Q To make sure that it's below the new price floor
13 I guess.

14 A Or above. The price cap is above that.

15 Q Thank you. And as you sit here today, you don't
16 know whether that would be legally permissible?

17 A I don't.

18 Q Well, if it's not legally permissible, then
19 wouldn't it be a good idea to have some more cushion now so
20 that we don't have rates that are below the price floor in
21 the future?

22 A I think the proposal that I have is a fair
23 proposal.

24 Q But it's possible that your proposal could result
25 in Qwest's retail rates being below cost in the future?

1 A That's true, but that could be for many other
2 services also. I think that's where -- we're setting the
3 rates for the private line based on the information that we
4 have now. And I hesitate to raise the NAC rates higher
5 than the proposed markup that I have just based on where
6 the current rates are right now.

7 Q Even though the -- even though the rates that you
8 propose would involve discount retail rates being lower
9 than the UNE rates?

10 MR. WEIRICH: I think this is asked and
11 answered.

12 MR. REICHMAN: That's fine. I'll withdraw the
13 question.

14 ALJ CROWLEY: Thank you.

15 Q BY MR. REICHMAN: Is it true that the only
16 services that Staff -- well, I'm sorry. Let me start over.
17 Your proposal for private line basically starts
18 at the UM 844 and adds a markup, correct?

19 A Yes.

20 Q Now, does Staff approach any other rates in this
21 rate design in that same way in terms of the testimony
22 presented?

23 A Of my proposal or any Staff member?

24 Q Any others that you're aware of.

25 A You would have to ask those Staff members.

1 Q Are you aware that any other Staff member
2 proposes that?

3 A I don't know.

4 Q Have you -- Mr. Ball I believe referenced
5 meetings among Staff in which some of the rate design
6 issues were discussed.

7 Did you attend any of those meetings?

8 A Yes.

9 Q Do you recall anyone else basing their specific
10 proposals on a UM 844 plus a markup?

11 A I don't recall any other.

12 MR. WEIRICH: Asked and answered.

13 Q BY MR. REICHMAN: You don't recall that?

14 A I don't recall, no.

15 Q Thank you. Now, Qwest proposes applying the
16 price floor test to the combined rates for a NAC and
17 channel performance, correct?

18 A That's correct.

19 Q And that's instead of testing to see if each of
20 those two rate elements is priced above the price floor?

21 A That's right.

22 Q What Qwest proposes doing is taking the sum of
23 the NAC and channel performance and comparing that to the
24 combined cost of those elements or the combined I guess
25 imputed price of those elements?

1 A That's right.

2 Q And you oppose that because there could possibly
3 be combinations of those elements that would not meet the
4 price floor?

5 A That. And also I think I state that my
6 interpretation of the law is that it applies to each
7 tariffed rate as opposed to a combination, which would
8 constitute a service.

9 Q Right. And I'm going to get to that.

10 A Okay.

11 Q Now, would you agree that all private lines
12 require some channel performance element?

13 A I don't know that. Mr. McIntyre did testify to
14 that. And so I would assume that that's true.

15 Q Do you have any basis to disagree with his
16 testimony?

17 A No, I don't.

18 Q Now, if it turned out that a NAC and the cheapest
19 channel performance element were above the price floor,
20 would you still have an objection to that sort of
21 application to the price floor?

22 A I would say yes because of my understanding of
23 the application of the price floor.

24 Q And the price floor that you're referring to is
25 found in ORS 759.410?

1 A Yes.

2 Q And that establishes a price floor for each,
3 quote, regulated retail telecommunications service, closed
4 quote; is that correct?

5 A Yes.

6 Q Do you consider a channel performance element to
7 be a telecommunications service?

8 A I don't know if I would characterize it as a
9 service. But, again, I'll go back to my testimony which
10 says my interpretation is by tariffed rate element.

11 Q Okay. Do you know if a customer just bought
12 channel performance and nothing else, could they do
13 anything with that?

14 A No.

15 Q Might it not be more appropriate to consider the
16 service to be private line consisting of several elements,
17 such as a NAC and channel performance, as opposed to
18 considering each of the elements a service?

19 A I think that this is an issue that's probably a
20 legal argument. And I don't know that I could give you a
21 legal opinion.

22 Q Okay. That's fine. Now, isn't it true that some
23 of Staff's proposed prices are lower than the FCC rates for
24 the same services? And I'm specifically referring to the
25 direct trunk transport mileage elements.

1 I'm sorry. I'm -- I apologize. I'm bouncing
2 back to switched access for my last set of questions here.
3 I apologize.

4 A Okay. They may be. I'd have to go and look. I
5 don't think they're significantly below.

6 Q Well, let's talk about the direct trunk transport
7 mileage rates for DS1.

8 Do you have your proposed rates handy?

9 A Now, one thing that I might also add is that in
10 my testimony I talk about aligning the DS1 rates both with
11 private line and switched access, assuming that it is a
12 similar service. So it could be that that deviates from
13 the switched access proposal talking about aligning them
14 with interstate rates.

15 Q Can I ask you to find your proposal for DS1 rates
16 for switched access.

17 A Okay. Are you looking in Staff 4?

18 Q We're probably looking at something different.
19 But let me try and track with you.

20 MR. REICHMAN: May I just have a quick moment to
21 confer? We may be on the wrong page, so to speak.

22 ALJ CROWLEY: All right.

23 (Off the record discussion held)

24 Q BY MR. REICHMAN: Let me just clarify. The Staff
25 proposes rates for switched access direct trunk transport

1 DS1 found at Staff Exhibit 5, page Van Landuyt 3.

2 A Well, there is also Staff 4, Van Landuyt 3. And
3 I believe they're the same numbers.

4 And if I look at the interstate rates, the fixed
5 transport rates are actually higher than your current
6 interstate rates. And the per mile are within 5 to 10
7 cents of the interstate rate.

8 Q You may be correct. And I may have been
9 misguided.

10 A Okay.

11 Q Let me just ask you one other question. Can you
12 tell me where in your testimony and exhibits are the rates
13 you propose for DS1 private line?

14 A DS1 private line? I believe they are -- now, the
15 DS1 has five different plans, or actually years 1 through 5
16 and a monthly rate. And I believe it starts --

17 Q Could you just take me to the monthly rate.
18 That's all I need.

19 A Oh, the monthly rates starts -- I believe that's
20 Staff 6, Van Landuyt 7. And, again, I believe they look
21 similar, at least for the 1 to 5 circuits, similar to what
22 I have on my switched access DS1 transport.

23 Q Okay. Thank you for pointing that out.

24 A Okay.

25 MR. REICHMAN: I have no further questions for

1 this witness.

2 ALJ CROWLEY: Thank you. AT&T?

3 MR. TRINCHERO: Thank you, Your Honor.

4 --ooOoo--

5 CROSS EXAMINATION

6 BY MR. TRINCHERO:

7 Q Good afternoon, Ms. Van Landuyt.

8 A Good afternoon.

9 Q The switched access rates that you proposed in
10 this proceeding, as your testimony earlier this afternoon
11 indicates, is above the rates that would prevail if we used
12 the UM 844 UNE prices?

13 A Yes.

14 Q Is it your opinion that the prices established in
15 this case for switched access will form a price floor? I'm
16 sorry. A price cap?

17 A Yes.

18 Q And I'm not asking for a legal opinion here but
19 just your opinion, in your opinion under the current
20 legislation in place, will the Commission have any
21 authority to adjust that price cap after this case?

22 MR. REICHMAN: Objection. That's been asked and
23 answered.

24 ALJ CROWLEY: I believe that was covered in Mr.
25 Reichman's examination.

1 MR. TRINCHERO: Okay.

2 Q BY MR. TRINCHERO: I wanted to ask you just one
3 other set of questions. Mr. Reichman asked you some
4 questions about the relationship between the rates that a
5 CLEC would pay for a retail service for resale under the
6 avoided cost discount and the rate that a CLEC would pay
7 for the equivalent of that same service if it were to
8 combine unbundled network elements to provide that service.

9 And if I'm not mistaken, your testimony was that
10 it would be inappropriate to have the resale rate with the
11 avoided cost discount applied come in below the combined
12 UNE rate; is that right?

13 A That's my understanding, yes.

14 Q Is it your understanding that the Commission is
15 legally required to establish that?

16 A I believe so.

17 Q And that would be true of any of the retail
18 services of the ILECs in this state; isn't that true?

19 A Any of the ILECs?

20 Q Any of the ILECs for whom the UM 844 prices are
21 applicable?

22 A I believe so.

23 Q Let me run through a hypothetical with you. If
24 an incumbent local exchange carrier subject to UM 844 had a
25 retail price for, let's say business local service, that

1 when the avoided cost discount is applied to it, would come
2 in lower than the combined UNE rates for that same service,
3 then the Commission would be obligated to change either the
4 retail price or the UNE prices?

5 A For business services? Because the Commission
6 after this rate case is limited to the rates that they can
7 adjust.

8 Q And after this rate case is finished, the
9 Commission will still have jurisdiction to adjust UNE
10 rates, won't they?

11 A UNE rates and local rates.

12 Q And so one option would be to lower the UNE rates
13 in that situation that I gave you, the hypothetical that I
14 gave you?

15 A Lower them without any back up or analysis,
16 just --

17 Q I -- well, I don't know.

18 A I don't --

19 Q That's why I posed the question.

20 A I couldn't see the Commission lowering without a
21 docket and justification, cost studies, et cetera. My
22 opinion.

23 Q Let's take another hypothetical. Let's say the
24 incumbent in question is not under the price cap
25 regulation. Then would the Commission raise the retail

1 rate?

2 A It could.

3 Q Okay. And you've already testified that the
4 other option is to lower the UNE rates?

5 A With appropriate --

6 Q Appropriate cost support?

7 A Yes.

8 MR. TRINCHERO: Thank you. That's all I have.

9 ALJ CROWLEY: Thank you. Mr. Weirich?

10 MR. WEIRICH: Just a few questions I kind of --

11 --ooOoo--

12 REDIRECT EXAMINATION

13 BY MR. WEIRICH:

14 Q First of all, Ms. Van Landuyt, I think you
15 testified you're not a lawyer; is that right?

16 A That's right.

17 Q These are all just your personal opinions about
18 the statute you've been asked about?

19 A Yes.

20 Q Mr. Reichman mentioned that Qwest has SS7 that
21 permits it apparently to analyze calls jurisdiction. Do
22 you remember that area?

23 A Yes.

24 Q Do you know whether Qwest actually does use SS7
25 to analyze calls jurisdiction?

1 A For all calls including their own or -- I don't
2 know.

3 Q I mean, you don't know how they use SS7?

4 A I don't.

5 Q Okay. Apparently if Qwest can use SS7 to obtain
6 the information and analyze the call jurisdictions as they
7 say, why do they work with the -- if you know, why is there
8 a system set up with the IXCs to report the PIUs?

9 Have you any experience in that area?

10 A Well, I don't know if they rely just solely
11 on SS7. I'm sure that there are toll tapes and other
12 records that they use such as for CABS billing, et cetera,
13 and other traffic studies that they would use to determine
14 the jurisdiction. I'm not aware of SS7 being the sole
15 source of jurisdictional information.

16 Q Do you know why the IXCs report the PIUs and what
17 is the purpose of that?

18 A My understanding is that there are traffic, toll
19 traffic that the incumbent is not able to measure either
20 through SS7 or other means. And the only way that they
21 have of determining the jurisdiction is a self-reported PIU
22 from an IXC.

23 Q So, obviously, your arbitrage concerns remain?

24 A Yes.

25 MR. WEIRICH: If I could have just a second.

1 That's all I have. Thank you.

2 ALJ CROWLEY: Thank you. Any follow up?

3 MR. REICHMAN: Just a couple brief areas.

4 --ooOoo--

5 RECROSS EXAMINATION

6 BY MR. REICHMAN:

7 Q Ms. Van Landuyt, isn't it true that some ILECs
8 don't use SS7 when they -- on their systems? Some smaller
9 companies perhaps?

10 A I suppose there are. I don't know any in
11 particular.

12 Q Okay. But it's possible that some calls could be
13 terminated by Qwest here without that information?

14 A It could be. It could be Qwest also because I
15 believe they use Feature Group C which does not employ
16 SS7.

17 Q So -- okay. One other question. In response to
18 a question by Mr. Trincherro, I believe you said that after
19 this case is concluded, the Commission would still have
20 jurisdiction to set UNE rates and rates for local services.

21 Do you recall that?

22 A That's my understanding.

23 Q And I want to clarify the second part. Isn't it
24 true that the Commission would have jurisdiction to set
25 rates for what are defined as basic services?

1 A Yes.

2 MR. REICHMAN: No further questions.

3 ALJ CROWLEY: Thank you. Mr. Trincherro?

4 MR. TRINCHERO: Nothing further.

5 ALJ CROWLEY: Mr. Weirich, any follow up to that?

6 MR. WEIRICH: No, thank you.

7 ALJ CROWLEY: Thank you very much, Ms. Van

8 Landuyt. You're excused.

9 Would you raise your right hand, please.

10 (Witness sworn by the Administrative Law Judge)

11 ALJ CROWLEY: Please be seated. And state and

12 spell your name for the record.

13 THE WITNESS: My name is Pamela J. Cameron. Last

14 name is spelled C-a-m-e-r-o-n.

15 ALJ CROWLEY: Thank you. And, Mr. Manifold?

16 MR. MANIFOLD: Thank you. AARP would call Dr.

17 Pamela Cameron to the stand.

18 --ooOoo--

19 DR. PAMELA CAMERON.

20 Thereupon called as a witness on behalf of AARP, first duly

21 sworn, was examined and did testify as follows:

22

23 DIRECT EXAMINATION

24 BY MR. MANIFOLD:

25 Q Dr. Cameron, do you have before you your prefilled

1 direct and rebuttal testimony and exhibits which have been
2 marked AARP 1, 2 and 3?

3 A I do.

4 Q Do you have any changes to note in those?

5 A Yes, I do. In the first direct testimony AARP 1,
6 first change is at Cameron 6. This is a table. And the
7 changes apply to the two entries that are called "Centrex
8 Plus" and "Centrex 21". Both of them are negative numbers
9 in the columns under Qwest rate proposal revenues, dollars
10 million, and AARP rate proposal, and dollars million.

11 And starting with Centrex Plus, \$40.11 should be
12 changed to 0.06. Following right over, under the column
13 headed "AARP", the next column over, it should be 0.06 as
14 well.

15 And for Centrex 21, the two numbers that are just
16 underneath the two we changed will be 0.01 and, again,
17 0.01.

18 These numbers were changed in the electronic
19 version that went out, but my electronic version went out
20 after the hard copies went out. So those of you who are
21 using the electronic version will see the change already
22 made.

23 I have a -- another typo on Cameron 9, Footnote
24 9, second line. After the word "I" the word "assume" does
25 have two s's.

1 And following along after the word -- after
2 "EAS", the word "difference" has a c in it.

3 And just below that, in the sentence that begins,
4 "Also as noted", the word "noted" has an e in it.

5 And another one on Cameron 29, line 21, fifth
6 word in says "insignificant". It should be "significant".

7 And I have one more change. And this one is in
8 AARP 3. I'm on Cameron 13. Again, this is a table. If
9 you look at the first set under "monthly charges", there is
10 a subtotal there that says \$21.08. I'm sorry. It says
11 21.88. It should be 21.08.

12 And corresponding to that, I'll take you back to
13 page 12, on line 17, the word "exceeds" should be replaced
14 with "nearly equals". And I apologize for that. The last
15 one was totally my fault. I don't know how to add.

16 Q Dr. Cameron, with these changes, if I asked you
17 these questions, would you give the responses that are
18 there today?

19 A Yes, I would.

20 Q Are those true and correct to the best of your
21 knowledge?

22 A To the best of my knowledge, they are indeed.

23 MR. MANIFOLD: Your Honor, I'd move for the
24 admission of AARP 1, 2 and 3.

25 ALJ CROWLEY: No party registered objections to

1 those, AARP 1, 2 and 3 are admitted.

2 And you're tendering your witness for cross, so
3 we have cross by Qwest.

4 MR. REICHMAN: Thank you.

5 --ooOoo--

6 CROSS EXAMINATION

7 BY MR. REICHMAN:

8 Q Is it Dr. Cameron?

9 A Yes, it is.

10 Q Thank you. Dr. Cameron, could I refer you to
11 your direct testimony, Exhibit AARP 1, page 7.

12 A Yes, sir.

13 Q And starting at line 13 at the end -- well, line
14 13 you say, "Although there are price floor data for
15 non-basic services, there were no cost data provided by
16 Qwest that can be used to determine the underlying cost of
17 individual local residential rate elements in this case."

18 A That's correct. You read it just right.

19 Q Thank you. And in your Footnote 8 you say you
20 use the term rate element to refer to a separately tariffed
21 item such as the 1FR rate?

22 A That's correct.

23 Q So it's your testimony that Qwest did not provide
24 cost data that could be used to determine the underlying
25 cost of the 1FR?

1 A That is absolutely correct. Qwest provided cost
2 data on a number of things. Qwest provided cost data on --
3 Qwest provided TSLRIC data and Qwest provided price floor
4 data that employs cost data.

5 But those cost data are not for an individual
6 rate element such as the 1FR. They are cost data that
7 include the whole cost of the loop. And unless you've
8 allocated away part of the cost of the loop to the other
9 services besides 1FR, you are implicitly allocating 100
10 percent of the loop cost to one rate element 1FR.

11 If you did it again for the business rate, you'd
12 be allocating the same 100 percent of the loop cost to the
13 business element. So you have to allocate away some
14 portion of that loop cost in order to get to the underlying
15 cost of the -- of a simple element 1FR.

16 Q Now, let me just jump down to line 17. You say,
17 "Even if the TSLRIC study" -- and for the reporter, that's
18 T-S-L-R-I-C.

19 "Even if the TSLRIC study and its inputs have
20 been thoroughly scrutinized by the Commission", and you go
21 on. But I want to focus on that point.

22 Are you aware that this Commission has
23 scrutinized Qwest's/U.S. West's costs over a period of many
24 years?

25 A I am aware that there were a lot of cost studies

1 leading up to this case. And that some of them, the UNE
2 cost studies, this TSLRIC cost study, I wasn't sure what
3 was approved in which dockets by the time I finished. But
4 I do understand what a TSLRIC is.

5 I'm sorry. Go ahead.

6 Q Let me stop you there. Are you aware that the
7 Commission has approved costs on what it believes is a
8 TSLRIC basis for a number of what it called building blocks
9 for Qwest's --

10 A For building blocks for UNEs, yes. But I
11 wasn't -- I wasn't 100 percent confident based on what I
12 read, and I believe it was Mr. Brigham's testimony, whether
13 or not the TSLRIC information that he was providing there
14 was totally built on those UNE data or not. It looked to
15 me that it may have been slightly different.

16 I didn't see where that particular TSLRIC had
17 been approved.

18 Q When you say "that particular TSLRIC", what are
19 you referring to?

20 A I was referring to the exhibits in I believe it
21 is Mr. Brigham's testimony.

22 Q You mean --

23 A His direct testimony.

24 Q But there was a lot --

25 A There were a lot of them in there, yes.

1 Q A lot of costs in there?

2 A Yes.

3 Q Are you aware that the Commission has scrutinized
4 costs and prices for building blocks?

5 A Yes.

6 Q In Oregon?

7 A Yes, I am.

8 Q And are you aware that the Commission has
9 approved -- has approved a methodology by which those
10 building blocks are mapped services, such as the 1FR?

11 A That building blocks are mapped, no. Not if it
12 includes the loop.

13 Q You're aware --

14 A Not if it includes allocating part of the loop.

15 Q Are you aware that this Commission has approved
16 allocating the entire UNE cost of the loop to the 1FR
17 service?

18 A No.

19 Q You're not aware that they've done that?

20 A I'm not aware that they've done that at all, no.

21 Q If they did that, is it your testimony that you
22 just disagree, you think that would be wrong?

23 A Absolutely.

24 Q Okay.

25 A You can't allocate 100 percent of a shared cost

1 to a single rate element if what you're trying to do is
2 rate design, especially in the context of this proceeding.

3 Remember, this proceeding is -- the purpose of
4 this proceeding is to implement a revenue decrease. And we
5 don't have out of that -- out of the first phase of this
6 proceeding, we didn't get cost studies that are consistent
7 with the data of the August, '97 billing determinants and
8 whatever other that we've used here.

9 We didn't get cost broken down by rate elements
10 that came out of that proceeding using those billing
11 determinants that we can apply that are consistent with the
12 revenue decreases that we're trying to implement here.

13 So I have not seen any cost studies that would
14 allow me to break those costs down, those costs that were
15 based on those '97 billing determinants, or any other
16 costs, and to a 1FR or any other rate element in the local
17 category.

18 Q But you've seen the UM 773 cost results?

19 A I have seen those.

20 Q And you've seen the prices that came out of the
21 UM --

22 A I have seen those, yes.

23 Q Isn't it fair to say that you just disagree with
24 the Commission that the -- the cost methodology that this
25 Commission approved in Docket UM 351?

1 A No.

2 Q You agree with the Commission?

3 A It depends on what your purpose is. The purpose
4 of UM 731 was to set costs and price -- well, I shouldn't
5 say.

6 But the purpose of this proceeding and this phase
7 of this proceeding is to implement a set of rate reductions
8 hopefully that will add up to \$64.2 million dollars in the
9 best way we can, given that we are restricted to using
10 August, 1997 billing determinants, and given the
11 information we have, the other information we have on
12 costs.

13 I have, indeed, seen the numbers from UM 731 and
14 UM 844. But that doesn't tell me, if I had to allocate the
15 loop, that doesn't tell me what the underlying direct cost
16 of 1FR is. It doesn't tell me whether it's covering its
17 cost and, therefore, it -- if I don't know if it's covering
18 its direct cost, then I don't know whether we should be
19 raising it or lowering it.

20 Q So you don't -- basically you don't believe that
21 the UM 844 prices are adequate to use in determining that
22 the retail rates --

23 A No, I don't.

24 Q Can I finish my question?

25 A Yes, sir. I'm sorry.

1 Q Let me start over again. You don't believe that
2 the UM 844 prices approved by this Commission are adequate
3 to determine if the retail rates considered in this case
4 cover the cost of each service?

5 A That's correct. Now, let me explain why. Those
6 rates are built on basically TSLRICs plus a markup. And
7 I'm sure the TSLRIC are correct and they were approved.

8 A TSLRIC includes a hundred percent of the loop
9 cost. And I'm sure that's what you meant by -- or maybe
10 that's what you meant by this Commission has authorized a
11 hundred percent of the loop to be allocated.

12 But the same hundred percent of the loop is in
13 the business rate, the 1FR. The same hundred percent is in
14 everything else.

15 But the truth is, a TSLRIC, a total service, if
16 it includes 100 percent of the loop, then we've got the
17 problem but also features use this loop. Actually, also
18 toll uses this loop. Actually, every interstate call that
19 comes in uses that same loop. So they share the cost of
20 that loop.

21 And unless you've allocated some cost away from
22 those -- the 1FR to those other services, then I can't say
23 that the revenue from those other services can be excluded
24 from my consideration.

25 In other words, I can't separate the revenues

1 from those other services from the revenues from the 1FR
2 because all the costs -- the underlying costs allowed me to
3 produce the revenues from the business rate. It allowed me
4 to produce the revenues from the features. It allowed me
5 to produce the revenues from the interstate calls that I
6 terminate.

7 Q Dr. Cameron, you were not involved in any of the
8 proceedings in UM 351, correct?

9 A 351, I was not.

10 Q Were you involved in any of the proceedings in UM
11 773?

12 A No, I was not.

13 Q Were you involved in UM 844?

14 A No. I have read a lot of those orders though.

15 Q Would it be fair to say that you're not a hundred
16 percent knowledgeable about how costs for all of the
17 different building blocks were developed in Oregon?

18 A We had a lot of trouble trying to get information
19 on how all of the -- how those costs were all developed.
20 That is true, I'm not 100 percent knowledgeable.

21 However, I am 100 percent certain that the loop
22 cost was -- is going to be -- or the majority of the loop
23 cost is going to be in those numbers.

24 Q And I'm not disagreeing with you.

25 A Okay.

1 Q Just to be clear, as I understand how the
2 Commission establishes price floors for service, they
3 considered 100 percent of the price of a loop, UM 844 price
4 of the loop.

5 A Where --

6 Q Do you disagree with that?

7 A Did the Commission, when it approved the
8 methodology for setting price floors, do that? Is that
9 what you're asking me.

10 Q Let me withdraw that question and start over.
11 Do you agree that in examining price floors for services in
12 this case -- let me withdraw that question.

13 Do you agree that in examining costs for services
14 in this case, Staff proposes using the entire cost of a
15 loop for the 1FR service?

16 A I did not interpret Staff's proposal like that.
17 And I think we best address that to Mr. Stanage if you're
18 talking about local 1FR rates.

19 Q Okay. Did you review the cost bases for the 1FR
20 rates that Staff has proposed in their testimony or has
21 offered in their testimony?

22 A I reviewed Mr. Stanage's testimony, yes.

23 Q And doesn't he use 100 percent of a loop price in
24 his cost analysis?

25 A Does he present evidence showing the UM 831s,

1 yes. But I'm not sure that's what he based his rate upon.

2 I would prefer you ask him that.

3 Q That's fine. Why don't we move on.

4 A Okay.

5 Q You're aware that ORS 759.425 provides that,
6 quote, the Commission shall seek to limit the difference
7 between the price a telecommunications utility may charge
8 for basic telephone service and the bench mark, closed
9 quote?

10 A I am aware of that statement. It's caused us a
11 lot of heartburn.

12 Q But that is Oregon law, correct?

13 A It is indeed.

14 Q Okay. And you still testified that that statute
15 does not require any increase to residential basic service
16 rates, correct?

17 A Absolutely.

18 Q And you state that the basic local residence flat
19 rate of \$12.80 alone should not be compared to the bench
20 mark, correct?

21 A That's correct.

22 Q Rather, you believe that the bench mark can only
23 be appropriately compared to the sum of all revenues
24 supported by the loop?

25 A That's correct.

1 Q And that would include basic services, EAS,
2 features, access, intrastate toll, and the revenue from CCL
3 and federal support amounts, correct?

4 A To the extent none of those costs were eliminated
5 from the model when the \$21 was estimated. I think it says
6 to the extent that these costs are included in there or
7 something like that.

8 And I was unable to find any evidence that
9 anything was removed other than -- and now we're talking
10 the \$21. I was unable to find evidence that anything was
11 removed, any costs were removed, other than access usage
12 and I think some EAS usage, but not the investment in the
13 loop.

14 Q Are you aware that the Oregon Commission has
15 defined the term "basic services" by rule?

16 A Yes, I am.

17 Q Do you have a copy of that in front of you, or
18 would you like me to hand you one?

19 A I don't.

20 (Mr. Reichman hands witness document)

21 THE WITNESS: Thank you, sir.

22 MR. REICHMAN: You're welcome. Your Honor, I'm
23 not going to mark this as an exhibit but just so everybody
24 has it.

25 Q BY MR. REICHMAN: And just to orient you, the

1 definition of basic service is contained in Oregon
2 Administrative Rule 806-032-0260, which starts about
3 two-thirds of the way down the first page.

4 Q Do you see that?

5 A I do.

6 Q Okay. Now, the definition of basic telephone
7 service is set forth in subsection 2, correct?

8 A It is.

9 Q Okay. And it states, "Basic telephone service
10 means retail telecommunications service that is single
11 party, has voice grade or equivalent transmission
12 parameters and tone-dialing capability, provides local
13 exchange calling, and gives customers access to but does
14 not include", and then it has a list of a through --

15 A d.

16 Q d. No, f.

17 A Oh, you're right. I'm sorry. Yes.

18 Q Now, among the things that basic telephone
19 service does not include are a, extended area service?

20 A Yes. I'm sorry. Yes.

21 Q b, long distance service?

22 A Yes.

23 Q That's the same thing as toll service, correct?

24 A That is.

25 Q Okay. Now, if I could ask you to turn to the

1 second page. About in the middle of the page is number 4.

2 Do you see that?

3 A Yes, I do.

4 Q And that says, "Services that are not considered
5 basic telephone service include but not are not limited to
6 the following:" And i, the very last one, is custom
7 calling features such as call waiting and caller ID,
8 correct?

9 A That's correct.

10 Q So under your testimony you would include in the
11 price for basic service under the Oregon statutory
12 reference revenue from services that are not defined as
13 basic services under Oregon Rule, correct?

14 A Yes, sir, I sure would.

15 Q Okay.

16 A And the reason is because that \$21 includes the
17 underlying cost of those features. I know this Staff was
18 not able to take -- I know the FCC synthesis was not able
19 to take the cost of those features out either. Therefore,
20 if you look at the \$21 and what it really represents, it's
21 a total average cost.

22 Now, some costs were removed. Like I said, Staff
23 took out some EAS usage costs. Those are not part of the
24 loop but part of the expenses. And they took out some
25 access costs.

1 Q Okay.

2 A And the FCC was able to identify certain costs
3 and take them out. But most of the costs are still in
4 there. And as far as I know, the cost of features are in
5 there, 100 percent of the cost of features are in there.

6 Therefore, the revenues -- if you're going to
7 compare apples and apples, you have to compare the
8 revenues, they have to match the costs.

9 Q You're talking about "in there", in the model --

10 A In the \$21. Yes, included in the model that
11 generated the \$21.

12 Q Which was the model that was applied in UM 731,
13 the Universal Service Docket?

14 A Yes.

15 Q Now, the statute again says that the Commission
16 shall seek to limit the difference between the price a
17 telecommunications utility may charge for basic telephone
18 service and the bench mark, right?

19 A This is correct.

20 Q So what's being compared there is the price of
21 basic service and the bench mark, correct? Just looking at
22 the statute.

23 A Just looking at the statute, it refers to a price
24 and it refers to a bench mark.

25 Q It doesn't say that the Commission shall seek to

1 limit the difference between the sum of all revenues
2 supported by the loop and the bench mark, does it?

3 A No. But the purpose of the \$21 was originally
4 designed to be the amount by which you would size your
5 universal service fund.

6 It was the amount -- it was determined to be the
7 amount by which in high cost areas you were going to give
8 somebody that was producing, say, in the high cost area
9 where their cost was maybe \$75 and the \$21 was determined
10 to be a reasonable and affordable rate, and it was the
11 amount by way in which you were going to explicitly as
12 opposed to implicitly, because that's the purpose of
13 universal service, explicitly subsidize that carrier in
14 that high cost region.

15 And \$21 is probably a very reasonable number if
16 you're looking at high cost areas where the TLRIC model is
17 going to produce a number of 75 or a \$110. But it is not
18 reasonable as a comparison to one rate element among all of
19 the services that those costs support.

20 Q Dr. Cameron, if I could ask you to look at this
21 rule that I've handed out again, specifically the second
22 page, 3(a).

23 A Residential party flat?

24 Q Right. You see 3 says, "The following are
25 classified as basic telephone service, whether sold

1 separately or in a package. (a) Residential single party
2 flat rate local exchange service."

3 Do you see that?

4 A I do.

5 Q And that's the same thing that you've referred to
6 before as the 1FR, is it?

7 A That is the 1FR is my understanding, yes.

8 Q And the price for that currently is \$12.80 in
9 Oregon; is that correct?

10 A That is correct.

11 Q And you're proposing that the Commission keep
12 that price for that service at \$12.80?

13 A I do. I see no reason in the context of a \$64
14 million revenue decrease, which means the company is over
15 earning, and absent any cost that identify for me the
16 direct costs of 1FR service, to raise residential rates.
17 It just doesn't make sense to me from an economic point of
18 view.

19 Q Would you agree that \$12.80 is less than \$21?

20 A It is indeed. Even though my math -- even though
21 my arithmetic ain't that good.

22 Q Thank you. Let me refer you to your rebuttal
23 testimony on page 7. And on at least the version I have
24 it's starting on -- well, on line 20 you say, "It is not
25 necessary to reduce the rate all the way to the bench mark

1 level in a single change."

2 Correct?

3 A I remember those words. It is not on line 20.

4 Oh, yes it is. I'm sorry. You're right. It is. Sorry.

5 Q Okay. Good. So you're saying it's not -- "Even
6 if -- and just to give full credit, the prior line says,
7 "Even if the bench mark were the correct gauge for this
8 rate element, it is not necessary to reduce the rate all
9 the way to the bench mark in a single change"?

10 A That's correct.

11 Q "Rather, even Staff acknowledges it is sufficient
12 under the UM 731 order to move rates in the right
13 direction"?

14 A That is correct.

15 Q Now, your proposal for residential basic rates
16 would not have them moving at all, correct?

17 A That is correct.

18 Q So they're not moving in the right direction, are
19 they, under your proposal?

20 A They're moving in just as right a direction as
21 can be because there's no cost evidence that they're not
22 moving in the right direction.

23 Q They're not moving, are they?

24 A They're not moving.

25 Q Okay. Thank you. Now, on page 19 of your -- I

1 believe it's your rebuttal. If not, I'm going to prove me
2 wrong. On page 19 of your direct testimony. I apologize.
3 Lines 15 to 16.

4 A On page 19?

5 Q I'm sorry. Page 19 of your direct.

6 A Okay.

7 Q Lines 15 to 16. You state, "Competition does not
8 exist for residential customers."

9 Do you see that?

10 A I do.

11 Q Now, do you believe that increasing the price of
12 basic service is more likely to increase or decrease
13 competition for residential customers?

14 A In this market today, unfortunately, I don't
15 think it's going to make much difference. And the reason I
16 say that is we haven't seen competitive local exchange
17 carriers moving into residential markets, irrespective of
18 whether we've got deaveraging, irrespective of whether
19 we've got the right balance between -- whether we've got
20 deaveraged retail rates consistent with deaverage retail
21 rates. We just haven't seen it.

22 The truth is, this is not the market they're
23 going after. Unfortunately. I wish it were, but it's
24 not. So I do not believe that in this case, even if we
25 knew that we had some kind of potential arbitrage problem

1 here, that raising residential rates would solve that
2 problem -- or would enhance competition. Sorry.

3 Q Are you aware that AT&T is offering telephone
4 service to residential customers over the cable system in
5 Oregon?

6 A No, I'm not. But that doesn't mean they're not
7 doing it.

8 Q You're just not aware?

9 A I'm just not aware of it, no.

10 Q It wouldn't surprise you if they were doing that?

11 A No, sir.

12 Q Now, you're an economist, correct?

13 A That's correct.

14 Q Would you agree with the general proposition that
15 the higher price of a service that a company offers, the
16 more likely it is that competitors can go after that
17 service because they can offer -- try to offer lower
18 prices?

19 A The higher the price of a service, everything
20 else the same?

21 Q Everything else the same.

22 A That's a very limited circumstance. But
23 everything else the same, the higher price probably gives
24 them a better probability of having the slightly higher
25 margin. Whether they could go after it and make a profit,

1 I don't have a clue.

2 Q Right. But the higher the price of the service
3 that they're competing against gives them the possibility
4 for greater margin, right?

5 A It gives them a possibility for a greater margin,
6 yeah.

7 Q Okay. No further questions. Thank you.

8 ALJ CROWLEY: Thank you. Mr. Weirich?

9 MR. WEIRICH: Thank you. I actually move --
10 Qwest has an exhibit that I would like to have the witness
11 identify for me. I think it would be Staff 22. Is that
12 where I am? A new exhibit.

13 ALJ CROWLEY: Oh, okay. Yes, Staff 22.

14 MR. WEIRICH: Sorry. Okay. It's actually a
15 two-page exhibit. If I can approach the witness?

16 ALJ CROWLEY: Yes.

17 MR. MANIFOLD: What number is that?

18 ALJ CROWLEY: Staff 22.

19 --ooOoo--

20 CROSS EXAMINATION

21 BY MR. WEIRICH:

22 Q Dr. Cameron, I'm Mike Weirich from Staff. I
23 would just like to have you look at the two-page exhibit
24 and if you could identify these two pages for me.

25 A Yes, sir, I can. I recognize this as a study

1 done by the Industry Analysis Division of the Federal
2 Communications Commission. It's dated May 25th.

3 It is an analysis of the CALLS proposal. That is
4 capital letters C-A-L-L-S. And the second page refers to
5 Appendix B of that study. B-4. Page B-4 provides some
6 assumptions on the elasticity of demand for toll service.

7 Q Thank you. You've seen the CALLS study before;
8 you're familiar with it?

9 A Yes, I am. And I reference -- I even mention it
10 in my rebuttal testimony.

11 Q I think you do at AARP 3, around pages 10 and 11.

12 MR. WEIRICH: I would offer Staff 22.

13 ALJ CROWLEY: Any objection?

14 MR. MANIFOLD: No objection.

15 MR. REICHMAN: Yes. We object on the grounds
16 that this refers to interstate and international toll calls
17 not intrastate, which is the subject of this case.

18 THE WITNESS: May I say something?

19 MR. REICHMAN: No.

20 ALJ CROWLEY: Mr. Weirich?

21 ALJ CROWLEY: That's correct. That was the right
22 answer.

23 MR. REICHMAN: I apologize. I couldn't help but
24 say that.

25 THE WITNESS: He's mean to me.

1 ALJ CROWLEY: Mr. Weirich, do you have a
2 response?

3 MR. WEIRICH: It's referenced in Dr. Cameron's
4 testimony. And, in fact, the page B-4 is the exact page
5 that was shown to a witness yesterday. I'm trying to
6 remember if it was Dr. Selwyn or I think it was Staff
7 witness Tom Turner in reference to the elasticities
8 discussions.

9 And certainly I represent it's part of the study,
10 but it's the only part I need for the purposes of the
11 record. And I do recognize that it talks about interstate
12 and international. And if that's what the exhibit says,
13 that's fine.

14 ALJ CROWLEY: All right. Mr. Reichman, I will
15 note your objection and the fact that it refers to
16 interstate and that we're dealing here with intrastate.

17 But given the context that Mr. Weirich has
18 established, I'm going to admit it. That's Staff 22.

19 MR. WEIRICH; Thank you.

20 Q BY MR. WEIRICH: Dr. Cameron, if you have
21 something you want to say about the exhibit?

22 MR. REICHMAN: I object to the question.

23 MR. WEIRICH: Pretty feisty this afternoon.

24 MR. REICHMAN: Can you ask a more specific
25 question?

1 MR. WEIRICH: Let me --

2 THE WITNESS: I will keep quiet at this point.

3 It's in.

4 Q BY MR. WEIRICH: Let me direct you to AARP 3,
5 page 11, if you would. And it actually starts on page 10
6 and goes onto page 11.

7 Are you there?

8 A Yes, sir.

9 Q Do you have a discussion about the CALLS analysis
10 on those two pages?

11 A Yes, I do.

12 Q Okay.

13 A And I report several of the elasticities that
14 were contained in that proposal, including the -.8 that is
15 on page B-4.

16 Q Right. And if I could ask you actually about
17 that line, the introduction to the -.8 figure on page 11,
18 you reference that as toll-interstate and intrastate.

19 Do you see that there?

20 A I do. And, you know what, that might be a
21 mistake because, as I recall, this is interstate.

22 Q I think that's correct.

23 A Yes, I'm sorry.

24 Q Would that be --

25 A I think it was interstate and international is my

1 recollection on the toll part of it. And, in fact, I think
2 I even go in here to explain that the interstate rates
3 being lower, we might expect that elasticity for intrastate
4 to be even a little higher than that, everything else the
5 same.

6 Q Okay. So would it be appropriate then to strike
7 the "and intrastate" part?

8 A Yes, it would.

9 Q Okay. Thank you.

10 THE WITNESS: And I apologize again. A lot of --
11 just apologizing to the Court because we are a Word Perfect
12 shop and we were trying to do this whole document in Word.
13 And it got a little messy from time to time, so I do
14 apologize for that.

15 ALJ CROWLEY: Well, this is Bill Gates country.

16 THE WITNESS: Then you don't want to hear what I
17 have to say about Word. Okay.

18 MR. MANIFOLD: Objection.

19 THE WITNESS: My mother feels the same way. She
20 loves him.

21 MR. WEIRICH: I have no further questions. I
22 offered this and it was admitted. Thank you.

23 ALJ CROWLEY: Thank you. Mr. Manifold?

24 MR. MANIFOLD: Could we have a moment?

25 ALJ CROWLEY: Sorry. Mr. Trincherro.

1 MR. TRINCHERO: Once again, jumping in on a
2 witness for whom I have reserved no time.

3 --ooOoo--

4 CROSS EXAMINATION

5 BY MR. TRINCHERO:

6 Q But I just have one clarifying question actually
7 as a follow up on the last question that you were asked by
8 Mr. Reichman. He asked you whether when a price for a
9 service is higher it is easier for a competitor to compete.
10 And you answered that yes, it probably would be.

11 And my question to you is, wouldn't you have to
12 know what the underlying cost of that service is in order
13 to answer that question?

14 A Indeed. And I hope I said, I thought I said,
15 that everything else the same, and then that doesn't mean
16 that they would be able to compete at all. That cost may
17 not allow them to compete at that price or a hundred and
18 fifty percent of that price.

19 Q Thank you very much.

20 MR. TRINCHERO: Nothing further, Your Honor.

21 ALJ CROWLEY: Thank you. Mr. Manifold? Oh, you
22 wanted a moment.

23 MR. MANIFOLD: Yes.

24 ALJ CROWLEY: Please.

25 (Discussion held off the record)

1 MR. TRINCHERO: I have one clarifying question.
2 The handout with the definition of basic service here and
3 the roles, we're not marking that as an exhibit?

4 ALJ CROWLEY: It's just for convenience.

5 MR. TRINCHERO: Just for your edification. That
6 was my understanding, Mr. Weirich.

7 MR. WEIRICH: Correct.

8 MR. MANIFOLD: Are we on?

9 ALJ CROWLEY: We're on.

10 MR. MANIFOLD: Thank you.

11 --ooOoo--

12 REDIRECT EXAMINATION

13 BY MR. MANIFOLD:

14 Q Dr. Cameron, when counsel for Qwest was asking
15 you questions about the \$21 bench mark and you were
16 responding on the purpose of it to size the USF, Universal
17 Service Fund.

18 And so I wasn't sure if you stated or implied
19 that you thought there had been a finding that \$21 was an
20 affordable rate.

21 A Okay.

22 Q Could you clarify that?

23 A Yes, sir. I would be happy to. I may have used
24 the word "affordable". In the universal service context
25 that word is thrown around a lot. If I said affordable, I

1 did not mean to because I don't know that they ruled that
2 \$21 was an affordable rate. And I certainly don't -- am
3 not saying in this case that \$21 is an affordable rate, by
4 any means.

5 Q Okay. Thank you.

6 MR. MANIFOLD: I have no other redirect.

7 ALJ CROWLEY: Thank you. Any follow up?

8 MR. REICHMAN: No.

9 ALJ CROWLEY: Mr. Weirich?

10 MR. WEIRICH: Nothing.

11 ALJ CROWLEY: Mr. Trincherro?

12 MR. TRINCHERO: No.

13 ALJ CROWLEY: Thank you very much, Dr. Cameron.
14 You're excused.

15 THE WITNESS: Thank you.

16 ALJ CROWLEY: Mr. Stanage.

17 MR. WEIRICH: Are we going to start at 9:30
18 tomorrow?

19 ALJ CROWLEY: Yes. Would you raise your right
20 hand, please.

21 (Witness sworn by the Administrative Law Judge)

22 ALJ CROWLEY: Thank you. Please be seated.
23 State and spell your name for the record.

24 THE WITNESS: My name is Jim Stanage. My last
25 name is spelled S-t-a-n-a-g-e.

1 ALJ CROWLEY: Thank you.

2 --ooOoo--

3 JIM STANAGE,

4 Thereupon called as a witness on behalf of PUC Staff, first
5 duly sworn, was examined and did testify as follows:

6

7 DIRECT EXAMINATION

8 BY MR. JONES:

9 Q Good afternoon, Mr. Stanage.

10 Mr. Stanage, did you sponsor Staff prefiled
11 testimony marked Staff Exhibit 16, Staff Exhibit 17, Staff
12 Exhibit 18, and Staff Exhibit 19?

13 A Yes, I did.

14 Q Do you have any corrections to make to that
15 testimony?

16 A No, I don't.

17 Q If I was to ask you those same questions today,
18 would your answers be the same?

19 A Yes, they would.

20 MR. JONES: At this time I'd like to offer Staff
21 Exhibits 16, 17, 18, and 19.

22 ALJ CROWLEY: No party objected to those
23 exhibits. They're admitted.

24 MR. JONES: At this time Mr. Stanage is available
25 for cross examination.

1 ALJ CROWLEY: Thank you. Mr. Reichman?

2 MR. REICHMAN: Thank you.

3 --ooOoo--

4 CROSS EXAMINATION

5 BY MR. REICHMAN:

6 Q Good afternoon, Mr. Stange.

7 A Good afternoon.

8 Q You propose reducing business access line rates
9 because they are too far above the universal service bench
10 mark, correct?

11 A That's part of the reason, yes.

12 Q And you propose leaving residential basic rates
13 largely unchanged, correct?

14 A That is correct.

15 Q Now, the bench mark is \$21, right?

16 A Yes, it is.

17 Q The residential basic rate is \$12.80?

18 A That's correct.

19 Q And that, obviously, is below the bench mark?

20 A Well, I don't know how obvious it is.

21 Q Okay.

22 A It's -- the statute uses the term "price". It
23 doesn't use the term "local base rate". And so price could
24 include whatever it ought to include.

25 Q Well, do you agree that the current rate for

1 residential basic service is below the universal service
2 bench mark?

3 A No.

4 Q You think it's above the universal service bench
5 mark?

6 A No.

7 Q You think it's exactly at the universal service
8 bench mark?

9 A I don't know what the relationship is.

10 Q You don't know what the relationship is?

11 A No. I haven't had any reason to examine what the
12 relationship is.

13 Q You've had no reason to examine the relationship
14 between residential -- the price for residential service
15 and the bench mark?

16 A That's correct.

17 Q But you testify about that, don't you?

18 A Yes. And my testimony says that I base the
19 residential rate on the relationship between the current
20 rate and the price floor.

21 Q Well, on page 20 of your testimony -- do you have
22 that in front of you? Do you have page 20?

23 A Yes.

24 Q And before I refer you to that, let me ask you a
25 couple of questions to establish a context here.

1 In this case Qwest proposed -- proposes raising
2 residential basic rates one dollar in Zone 1, correct?

3 A Yes, that's correct.

4 Q And Qwest proposes raising the residential basic
5 rate two dollars in Zone 2, correct?

6 A Correct.

7 Q And three dollars in Zone 3, correct?

8 A Yes.

9 Q Your proposal is to leave the residential --

10 A Actually, I think you meant flat rate, basic
11 rate.

12 Q And I -- thank you.

13 A Yes.

14 Q And thank you for that clarification. Your
15 proposal is to leave the residential flat basic rate
16 unchanged in Zone 1, correct?

17 A That's correct.

18 Q And then you do propose raising the rate for that
19 service one dollar in Zone 2 and two dollars in Zone 3,
20 correct?

21 A That's correct.

22 Q Now, on page 20, lines 16 to 18, you state that
23 by raising the residential rates as you have proposed in
24 rate groups 2 and 3 by one dollar and two dollars
25 respectively, those rates are brought closer to the

1 universal service bench mark, correct?

2 A That's correct.

3 Q So wouldn't that imply that the rates are
4 currently below the universal service bench mark?

5 A It could. But that's not what I meant.

6 Q What did you mean?

7 A In comparing to the bench mark, for rate groups 2
8 and 3, because almost all of the wire centers in rate group
9 2 and all the wire centers in rate group 3 are in -- are
10 wire centers that under the Commission's order in UM 731,
11 the universal service docket, those wire centers would
12 receive support from the Universal Services Fund.

13 And I've been advised by a colleague that
14 counting the subscriber line charge in those rate groups
15 toward the bench mark wouldn't be appropriate.

16 Q Would not be appropriate?

17 A Would not be appropriate. And so I can see that
18 even if the amounts are similar amounts to those used in
19 Dr. Cameron's testimony where she listed I believe custom
20 calling features and the number portability charges, even
21 adding those to the rate, still wouldn't be anywhere close
22 to \$21.

23 I'm not saying that those factors should be added
24 or shouldn't be added. But even just the simple arithmetic
25 wouldn't work out. It would be several dollars less than

1 \$21.

2 Q Okay. Well, when you said that by raising the
3 residential rates as I have proposed to rate groups 2 and 3
4 by one dollar and two dollars respectively, those rates are
5 brought closer to the universal service bench mark, what
6 other conclusion can one draw from that other than the fact
7 that those current rates are below the bench mark today?

8 A In rate groups 2 and 3, no other conclusion.

9 Q Okay. So you would agree with me that the
10 current residential rate of \$12.80 for residential flat
11 basic service is below the \$21 bench mark?

12 A In rate groups 2 and 3.

13 Q And it's the same rate in rate group 1 today,
14 correct?

15 A That's correct.

16 Q And so isn't it below the bench mark in rate
17 group 1 today?

18 A I don't know because I don't really have an
19 opinion about what ought to be or what ought not to be in
20 the bench mark or in the revenue to the rates that are
21 compared to the bench mark.

22 But I do know that the rate in rate group 1 is
23 above the price floor. And I believe that the price floor
24 is the appropriate criterion to use in judging whether or
25 not the service is priced properly under the statutes.

1 Q Under which statutes are you referring to?

2 A Well, among others, 759.400. Whatever those
3 numbers are after 400. The changes in the statute that
4 were brought about by Senate Bill 622.

5 Q Now, you're aware that 759.425 says that the
6 Commission shall seek to limit the difference between the
7 price a telecommunications utility may charge for basic
8 telephone service and the bench mark, correct?

9 A Yes.

10 Q How does your pricing proposal seek to limit the
11 difference between the price a utility may charge for basic
12 service and bench mark?

13 A I believe you've asked me that question already
14 in a data request.

15 Q Well --

16 A And so I'll read to you the same answer that I
17 gave to you in the data request because my answer would
18 still be the same.

19 "My proposed rate for 1FR, that is one party flat
20 rate residential service, in rate group 1 complies with the
21 requirements of ORS 759.425 for the Commission to, quote,
22 seek to limit the difference between the price a
23 telecommunications utility may charge for basic telephone
24 service and the bench mark, unquote."

25 "The language of the statute strongly suggests

1 that the Commission in establishing rates use appropriate
2 limiting factors and that rates not simply be moved to the
3 bench mark without regard to other factors."

4 "For a description of my view on this point, see
5 my response to data request number 12. It's my proposed
6 rate for 1FR service in rate group 1 is above the
7 established price floor for 1FR service. I believe the
8 price floor as an indicator of the economic cost of 1FR
9 service is an appropriate limiting factor for the
10 Commission to use in determining the 1FR rate as provided
11 for by the statute."

12 Q Now, you did propose raising the residential flat
13 rates in rate groups 2 and 3, right?

14 A Yes.

15 Q And you say by doing that, those rates are
16 brought closer to the universal bench mark?

17 A That's correct.

18 Q And your rate proposal does not move the rate for
19 that service in rate group 1 at all, correct?

20 A It doesn't move it, no.

21 Q So your proposal does not bring that rate any
22 closer to the bench mark, correct?

23 A Well, it depends on what you mean by "rate".

24 Q Well, I'm using it -- trying to use it in the
25 same sense that you used it when you said "by raising

1 residential rates as I have proposed in rate groups 2 and 3
2 by one dollar and two dollars".

3 A I would agree that the basic flat rate itself
4 isn't moved closer to the 21 -- to the amount of \$21,
5 whether it's a bench mark or otherwise.

6 Q Okay. So you agree that the rate for basic --
7 the residential flat rated service, commonly known as the
8 1FR, the rate group 1 in your proposal is not moving
9 towards the bench mark?

10 A That's correct.

11 Q And would you agree that over 90 percent of the
12 residential customers of Qwest are in rate group 1?

13 A For residential service?

14 Q Yes.

15 A That's approximately correct. According to the
16 company's data.

17 Q Do you have any reason to disagree with that
18 data?

19 A No.

20 Q Okay. Thank you.

21 Now, do you agree with the general proposition
22 that competition for residential service is more likely to
23 develop if Qwest's rates are higher?

24 A I don't know. There might be a number of other
25 factors that might intervene. It's hard to say.

1 Q Well, would you agree with the general
2 proposition that if Qwest's residential rates are higher,
3 it allows more opportunity for competitors to compete for
4 those customers?

5 A Well, I think I just answered that question.

6 Q So you just don't know?

7 A Depends on the circumstances. There are very few
8 economic circumstances in real life where there are only
9 two factors or one factor involved.

10 Q Well, let me ask you to assume one factor.

11 Assume Qwest --

12 A Excuse me. But you may as well not ask me that
13 question because I'm not going to --

14 Q Well, I'm sorry. But I get to ask those
15 questions and your lawyer gets to object.

16 Assume for me if you would that the rate for
17 residential basic service is set by the -- flat rated
18 residential basic service for the 1FR is set by this
19 Commission at \$30 a month.

20 Can you just assume that?

21 A I can assume that.

22 Q Thank you. Would you agree that at that rate it
23 is more likely that competitors would go after those
24 customers than they would if the rate is kept at \$12.80?

25 A Well, I would give the same answer I gave at the

1 beginning. It would depend on what other factors are
2 involved. Nothing is ever that simple.

3 Q Well, do you agree that there is competition for
4 Qwest's business customers today?

5 A I don't -- I don't know.

6 Q You just don't know. Okay.

7 Do you believe that it's important that the
8 Commission try to set conditions that allow competition to
9 develop for residential customers in Oregon?

10 A I'm sorry. Would you repeat that?

11 Q Sure. Do you believe that it's important that
12 the Commission try to establish conditions that would allow
13 competition to develop for residential customers?

14 A Yes.

15 Q Now, with respect to your business basic service
16 proposal, your proposal would lower the price of business
17 basic service. And I think its flat rate -- and correct me
18 if I'm wrong -- in Zones 1 and 2 by 40 cents and in Zone 3
19 \$2.35; is that correct?

20 A That's correct.

21 Q And that would make the price equal in Zone 2 and
22 Zone 3?

23 A That's correct.

24 Q They're still a little bit higher than Zone 1
25 though?

1 A Yes.

2 Q Okay. Now, in conjunction with the universal
3 service proceeding, Qwest recently lowered its rates for
4 business basic service, correct?

5 A Yes, that's correct.

6 Q And at the same time created three different
7 prices for the three different zones, correct?

8 A That's correct.

9 Q And so currently, as we sit here today, there are
10 three different prices established for the three different
11 zones for business basic customers?

12 A That's correct.

13 Q Your proposal would move away from that and
14 establish the same price for Zones 2 and 3?

15 A That's correct.

16 Q Now, currently the Commission has deaveraged the
17 price of loops; the UNE, commonly known as loops, correct?

18 A That's correct.

19 Q And, indeed, the loop price in Zone 3 is
20 currently \$56.21, correct?

21 A If you're reading that off an appropriate
22 document, that's probably correct.

23 Q Would you accept that subject to check?

24 A Yes.

25 Q Thank you. And, indeed, the Commission has set

1 different prices for the UNE loop in Zone 1, Zone 2 and
2 Zone 3, correct?

3 A That's correct.

4 Q So under your proposal, the retail pricing would
5 not mirror the wholesale pricing because you would have the
6 same price in Zones 2 and 3?

7 A Wouldn't mirror? No, it wouldn't mirror. Which
8 I might add would put me in good company because even
9 though the company's proposal is slightly higher in rate
10 group 3 for 1FB service, that is one party flat rate
11 business service, it also in only the most general possible
12 sense could be characterized as mirroring the price floor
13 in rate group 3. That is, the differential is nowhere near
14 proportional.

15 Q Okay. And that's because basic services are not
16 subject to the price floor, correct?

17 A I don't know why exactly the company proposed the
18 rate that way. In its testimony, in Mr. Teitzel's
19 testimony, he seemed to have a number of rationales for
20 making the rate proposal he made.

21 Q Let me move onto one other topic. Were you here
22 when I was speaking with Mr. Ball earlier today?

23 A For a few minutes. I didn't hear the entire
24 conversation.

25 Q This I did in the beginning, so let me just set

1 it up. You're the witness on local service and EAS,
2 correct?

3 A That's correct.

4 Q And would you agree that the difference in the
5 revenue impact between Qwest's and Staff's proposal with
6 respect to residential local service is approximately \$10.4
7 million?

8 A I would have to look that up, but that's -- that
9 sounds about right.

10 Q Okay. And specifically Qwest proposes increasing
11 the revenue for that class of customers by 10.4 more
12 million dollars than Staff proposes, right?

13 A That's approximately correct.

14 Q Now, with respect to EAS, Qwest's proposal would
15 reduce revenues by approximately \$10.4 million more than
16 Staff's proposal would reduce revenues from EAS, correct?

17 A That's approximately correct.

18 Q Now, suppose with me that the Commission were to
19 adopt Qwest's pricing proposal regarding basic service,
20 residential basic service. Would you have a recommendation
21 as to whether the Commission should account for that
22 difference by decreasing EAS rates by a greater amount than
23 Staff is currently proposing?

24 A Well, you're asking me a hypothetical question;
25 what would we do if we had twice as much money for reducing

1 rates as we did in my proposal and in my testimony.

2 And in the first place, I doubt that it would be
3 solely up to me to decide how to allocate that. It might
4 be allocated among the whole spread of services or even to
5 other local services other than those that I'm assigned to.

6 And also even if -- even if everyone agreed I
7 ought to get the entire 11 million, I'm not sure what I
8 would do. There are a lot of factors I'd have to
9 consider.

10 Q Okay. And I understand that you don't determine
11 Staff's proposals and I understand, obviously, that the
12 Commission makes the ultimate decision in this case. But
13 if someone were to ask you your opinion at this point, you
14 just couldn't say you whether have a recommendation one way
15 or the other?

16 A No.

17 MR. REICHMAN: If I could have one minute,
18 please.

19 ALJ CROWLEY: You may.

20 MR. REICHMAN: Just a couple more questions.

21 Q BY MR. REICHMAN: Mr. Stanage, would you agree
22 that if the 1FR price in Zones 2 and 3 is lower than the
23 price for the building blocks necessary to assemble that
24 service, it would be unlikely that a competitor would use
25 building blocks, or UNes as I guess we're calling them now,

1 to offer service to residential customers?

2 A Well, if that were the only factor involved,
3 possibly it would. But, in fact, under the Universal
4 Services Program, the provider of that service in rate
5 group 3 would receive from the Universal Services Fund,
6 that is a qualifying carrier would receive, the difference
7 between the bench mark of \$21 and whatever the price floor
8 or UNE, which would be the same thing, established for rate
9 group 3 or whichever wire center it was would receive that
10 amount for each line served.

11 Q From the Universal Services Fund?

12 A So, in other words, it really wouldn't matter if
13 the price were above the \$21 bench mark, it wouldn't matter
14 whether it was exactly \$21 or several times \$21. The
15 provider of that service would receive the same amount from
16 the Universal Services Fund.

17 Therefore, there's really no economic reason --
18 no purely economic reason for the provider of that service
19 in that wire center in rate group 3 to have a price higher
20 than \$21.

21 Q And I don't think that's what my question was
22 getting at. My question was whether it was more likely
23 that a -- under those circumstances more likely that a
24 competitor would use UNEs to serve that customer or would
25 use -- would rely on resale of services with the discount.

1 A I don't know. I'm not -- I'm not an expert on
2 that subject.

3 Q Just to follow up on what you did say. It is
4 your understanding that if a CLEC uses UNEs to serve a
5 customer in rate group 3 or used or resold a finished
6 service to serve that customer, they would get the same
7 amount from the Universal Service Fund, in either event?

8 A My understanding is that only a qualified
9 carrier, qualifying under the rules established by the
10 Commission in their orders in the universal services docket
11 would receive funds from the Universal Services Fund. I'm
12 not sure that a reseller would qualify.

13 Q You don't know whether a -- well, it's true, is
14 it not, that a CLEC could be a qualified carrier under the
15 Universal Service Fund?

16 A Yes.

17 Q You just don't know whether they would qualify to
18 draw from the fund if they used resale as opposed to UNEs?

19 A No. No, I'm not familiar. I'm not that familiar
20 with that.

21 Q And I thought I heard you say earlier that they
22 would draw the same amount either way.

23 A A qualified carrier would draw the same amount.

24 Q Let's assume that a CLEC is a qualified carrier.
25 Let's get that on the table. Would you agree then that

1 they would draw the same amount from the Universal Service
2 Fund if they serve a customer through UNEs or through
3 resale?

4 A Yes. I'm sorry. If they were qualified, yes.

5 Q Assuming they're qualified.

6 A Assuming they're qualified, yes, of course.

7 Q Okay. Now, in assessing the best way to serve
8 that customer, wouldn't a rational, economic CLEC compare
9 what its costs are going to be to purchase UNEs versus to
10 do it through resale?

11 A I suppose they'd probably think of that.

12 Q And they would likely choose the lower cost
13 option, correct?

14 MR. JONES: Your Honor, I'd like to interject an
15 objection. It seems like he's not knowledgeable about this
16 line of questioning. And I guess he doesn't really --
17 doesn't seem to be getting anywhere by this.

18 ALJ CROWLEY: Do you have much more along these
19 lines?

20 MR. REICHMAN: I don't have much more. And it
21 does go to his recommendation of how the rates should be
22 deaveraged. And I'm trying to explore the basis and the
23 implications. Whether or not he has information or not
24 is --

25 ALJ CROWLEY: I'm going to let him explore this.

1 I think it's clearly related to the testimony.

2 Q BY MR. REICHMAN: I forgot where I was. Perhaps
3 I -- I forgot if you answered the question about whether
4 the competitor would be more likely to choose the option
5 that had the lowest cost, whether it was resale or UNEs,
6 right?

7 A If there were no other intervening factors.

8 Q Now, isn't it also true that the lower the rate
9 for the 1FR in those rate groups, the more likely it is
10 that the competitors will choose the 1FR as opposed to
11 building blocks?

12 A Well, I suppose it would depend a lot on what
13 they were trying -- what sort of service they were trying
14 to sell.

15 Q Do you agree that one of the goals of the
16 Telecommunications Act is to encourage all forms of
17 competition, of facilities based as well as resale?

18 A I'm sorry. Would you repeat that, please?

19 Q Sure. Do you agree that one of the goals of the
20 Telecommunications Act, the Federal Telecommunications Act,
21 is to encourage all forms of communication, including
22 facilities based as well as resale?

23 A Well, I'm not sure that that's my opinion, but
24 that's the opinion of -- I've heard other people state or
25 read.

1 MR. REICHMAN: I have nothing further. Thank
2 you.

3 ALJ CROWLEY: Thank you. And AARP?

4 MR. MANIFOLD: Yes. Thank you.

5 --ooOoo--

6 CROSS EXAMINATION

7 BY MR. MANIFOLD:

8 Q Mr. Reichman asked you about 1FR rates. And you
9 indicated that you did not move the group 1 1FR rate
10 closer to \$21.

11 Do you recall that?

12 A Yes.

13 Q Did you move any group 1 basic rates closer to
14 \$21, such as measured.

15 A You mean residential?

16 Q Residential, excuse me. Yes.

17 A No. Except in rate groups 2 and 3.

18 Q I'm sorry. I'm not restricting myself to 1FR. I
19 need to ask you about both measured and basic.

20 A Okay. No, I didn't move any other residential
21 rates other than the flat rates in rate groups 2 and 3. I
22 didn't raise the rates, proposed raising the rates.

23 Q Your proposal is to leave measured -- the monthly
24 rate on the measured rate at the same level?

25 A That's right.

1 Q And why is that?

2 A Because in rate group 1, the current revenue,
3 according to the company's data, already exceeds the price
4 floor presented in the company's testimony. The company
5 presents a price floor of \$16.62 for residential measured
6 service. And a calculation using their data results in a
7 total of \$17.44, which includes the \$6.37 fixed monthly
8 charge, plus \$6.72 of monthly usage revenue calculated
9 based on the company's exhibit in Mr. Brigham's testimony
10 which shows 224 minutes approximately of monthly -- average
11 monthly usage times the established rate of 3 cents a
12 minute for local measured service, plus the current \$4.35
13 subscriber line charge of \$4.35, totals to \$17.44, which is
14 greater than the price floor, according to Mr. Brigham's
15 testimony, of \$16.62.

16 Q I have just one or two questions regarding the
17 questions that were referred/deferred lateral to you by Mr.
18 Ball regarding the company's hypothetical if in the event
19 the Commission were to accept the company's residential
20 local exchange increase which would create a difference
21 between their proposal and your proposal of \$10.371
22 million.

23 And am I correct that in order to -- if that were
24 done, in order to get a result that is as close as possible
25 to what you have recommended, one would put that entire

1 amount of money on residential EAS to offset the
2 residential basic increase?

3 In other words, instead of putting it on all EAS
4 both residential and business, one would come up with a
5 similar -- more similar result to your original proposal by
6 putting it entirely on EAS?

7 A I'm not quite sure I see how.

8 Q Well, can you look -- do you have Mr. Ball's
9 exhibit with you?

10 A Yes.

11 Q It is Staff 2.

12 A Yes.

13 Q Okay. This shows that extended area service, the
14 extended area service decrease proposed by the company, is
15 split between residential and business usage in
16 approximately the 7 million to 4 million dollars range.

17 A Yes. That's correct.

18 Q So if one increased residential basic rates by
19 approximately \$10 million and then decreased all EAS by
20 approximately \$10 million, the result would be an increase
21 in residential rates of 10 million and a decrease of
22 residential EAS by 7 million, which does not offset the 10
23 million.

24 A I understand your question now. You're asking
25 me, in effect, would it be proportionate to what I've

1 already proposed. And what I've already proposed is, as
2 you can see from my exhibit which shows the details of my
3 rate design, when you look at the sections for residential
4 and then for business EAS, you'll see that the revenues in
5 both groups for the five rate bands for each service go
6 down by approximately the same amount, 28 percent.

7 And so if the -- an additional amount, whether it
8 was 11, 10 million or any other amount were done
9 proportionately such that it achieved the same percentage
10 decrease in the total revenue from both, yes, then the
11 proportion of about 7 million to about 4 million would
12 remain the same.

13 Q And in that instance one would not -- one might
14 have offset basic with EAS on a company-wide basis but
15 would not have achieved on a residential versus business
16 basis, would not have achieved an offset?

17 If residential rates go up by \$10 million and
18 down by \$7 million, that is not an offset.

19 A That's right. It would not be a total offset.

20 Q Equal offset?

21 A That is correct.

22 Q You were asked some questions about competitors
23 buying UNEs and versus wholesale. And I don't want to get
24 into a UNE versus wholesale distinction.

25 However, if a competitor were looking at serving

1 residential customers, do you believe that that competitor
2 would look at only the revenue that they would obtain from
3 basic service or would they look at the revenue they would
4 obtain from the customer from other services they would
5 sell as well?

6 A Well, I'm not an expert on the behavior of
7 telephone companies in general. But --

8 Q They left the room. You can say whatever you
9 want.

10 A It would seem likely that one would try to sell
11 them more than one service, yes.

12 Q In what you've read or understand, would you
13 expect that the competitor would seek to sell basic service
14 if they were going to offer basic service, as well as long
15 distance service, both intraLATA as well as intrastate
16 interLATA and interstate long distance service?

17 A Yes. I would expect them to try to sell all of
18 those services.

19 Q And isn't it possible they might also attempt to
20 sell DSL service where available?

21 A I suppose they probably would.

22 Q Might they also attempt to sell wireless service
23 if they offered it?

24 A I suppose they would.

25 Q Might they also attempt to sell internet access

1 service?

2 A Yes, I think so.

3 Q And wouldn't a rational competitor want to look
4 at total revenues stream that could be generated from all
5 of the services they could sell and compare that to the
6 expenses that they would incur from those same things?

7 A All things being equal, I suppose they would.

8 Q Mr. Reichman asked you some questions in which
9 you responded regarding UM 731. And you drew a distinction
10 between group 1FR rate groups 2 and 3 versus rate group 1.

11 You, of course, have recommended no increase in
12 the rate group 1 1FR rate and an increase in the rate
13 groups 2 and 3.

14 Am I correct so far?

15 A That's correct.

16 Q Okay. In determining -- and you also, in
17 reference to the statute that was enacted through Senate
18 Bill 622, you seemed to indicate some uncertainty about
19 exactly what the word price in quotes meant.

20 Was that because you thought that in looking at
21 price, one might want to look at more than simply the 1FR
22 rate?

23 A Just the basic line rate, yes.

24 Q What would you look at?

25 A Well, I would at least include the basic line

1 rate. And in wire centers that weren't supported by the
2 Universal Service Fund, the universal services charge.

3 Q What about the subscriber -- the federal
4 subscriber line charge?

5 A I'm sorry. Didn't I just say subscriber line
6 charge?

7 Q I didn't hear it if you did.

8 A I'm sorry.

9 Q If you did, I didn't hear it.

10 A Perhaps I said something else. But I meant to
11 say the subscriber -- a subscriber line charge.

12 Q Anything else that you would add onto that that
13 you can think of at the moment?

14 A Well, I'm not an expert in that area, so --

15 Q Okay. We'll leave it there.

16 A I might add though that in the company's own
17 proposal, in Mr. Brigham's testimony in his exhibits, he
18 summarizes at the beginning of his supporting exhibit,
19 confidential exhibit, this would be -- this would be the
20 one with the hole punched through the middle of it.

21 It must be Qwest 219, starting with Brigham 1 and
22 running through Brigham 5. He lists two data items, two
23 columns of data items in this table. On the right side he
24 places the imputed price floors that he's collected from
25 the rest of this Exhibit 219. And on the left he lists

1 what he calls proposed prices.

2 And if you look back at the details on the pages
3 from which he took those proposed prices, for example, the
4 very first service listed in 219, Brigham 1, residential
5 basic flat rated service, rate group 1, he lists as the
6 proposed price \$18.80.

7 If you then turn to the same exhibit, Brigham 9,
8 on the left-hand side of that page in the second column,
9 toward the bottom you'll see bolded "Total rate group 1,
10 \$18.80."

11 You'll see above that a few lines, "Rate group 1,
12 \$13.80." To that he's added, among other things, the
13 subscriber line charge, which carries the initials CALC,
14 but also means -- it's one of its many names. But it's
15 also the subscriber line charge, \$4.35.

16 So apparently the company in its testimony
17 considers the price for a service to be more than simply
18 the basic price for the service itself. In other words,
19 they've included at least the subscriber line charge in
20 determining a proposed price to compare to the price floor,
21 which is what I've also done.

22 MR. MANIFOLD: No further questions, Your Honor.
23 Thank you.

24 ALJ CROWLEY: Thank you. Mr. Jones?

25 MR. JONES: We have no further questions.

1 ALJ CROWLEY: All right.

2 MR. REICHMAN: I have brief follow up.

3 ALJ CROWLEY: Follow up?

4 MR. REICHMAN: Brief follow up.

5 --ooOoo--

6 RE CROSS EXAMINATION

7 BY MR. REICHMAN:

8 Q Mr. Stanage, you were just referring to Mr.
9 Brigham's exhibit?

10 A Yes.

11 Q Now, the purpose of this exhibit was to compare
12 Qwest's proposed design rates with the imputed price floor,
13 correct?

14 A That's what I assumed, yes.

15 Q This particular exhibit was not prepared --
16 prepared for the purpose of doing an analysis under ORS
17 759.425 comparing price of a basic service with the bench
18 mark, correct?

19 A I don't know. I would have thought the company
20 would have submitted testimony under current law.

21 Q Is there anything in Mr. Brigham's testimony that
22 states that he is comparing the price of the basic service
23 with the bench mark?

24 A I don't know what you mean by "basic service".
25 Could you give me an example?

1 Q Well, I'm using it in the sense that it's used in
2 ORS 759.425, basic telephone service?

3 A Well, he has a list I think of six pages where
4 he's compared price floors to specific prices, even by rate
5 group.

6 Q He's comparing prices to price floors, correct?

7 A That's right.

8 Q He's not comparing prices to the universal
9 service bench mark, right?

10 A No, he's not.

11 Q Okay. Now, you've noticed that he included in
12 the price for this purpose the -- here it's listed as the
13 CALC charge which is also known as the subscriber line
14 charge and a couple of other things.

15 A There's a number of names.

16 Q And that is a federally required charge; is that
17 correct?

18 A That's my general understanding.

19 Q And that charge was in place in 1999 when the
20 Oregon legislature passed 759.425, correct?

21 A Yes.

22 MR. REICHMAN: No further questions.

23 ALJ CROWLEY: Thank you. Any follow up? All
24 right. Thank you very much. Mr. Stanage, you're excused
25 as a witness. We'll reconvene tomorrow in the main

1 hearing room in the PUC building.

2 ALJ CROWLEY: Yes?

3 MR. MANIFOLD: Your Honor, two things. I'd ask
4 to be excused from attending tomorrow.

5 ALJ CROWLEY: Absolutely.

6 MR. MANIFOLD: And, secondly, I have the pages
7 from the transcript that I asked official notice to be
8 taken.

9 ALJ CROWLEY: Excellent. Thank you. We're
10 adjourned for today.

11 (Recess taken)

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REPORTER'S CERTIFICATE

STATE OF OREGON)
)
County of Polk)

I, SUSAN M. PRICE, Court Reporter and Notary Public for the State of Oregon, do hereby certify:

That the foregoing transcript was taken down by means of stenotype at the time and place therein named, and thereafter transcribed by means of computer aided transcription, and that the foregoing transcript contains a full, true and verbatim record of the said proceedings, pages 337 - 535.

I further certify that I have no interest in the event of the action.

WITNESS my hand this 13th day of June, 2001.



Susan M. Price

Susan M. Price
Court Reporter

adjust 470:21 472:7,9 adjusted 463:7 adjusting 431:8,15 432:4 adjustment 347:24 348:2,7 350:5, 10,20,23 351:1 418:2,8 431:17 434:19 440:3,8 443:24 adjustments 348:12 417:23 432: 16 433:2,5,7 Administrative 337:11 387:2 414:17 451:24 476:10 490:2 505: 21 admission 353:12 376:6 388:4 401:5 478:24 admit 500:18 admitted 342:15 353:15 376:10 388:7 401:7 414:8,11 415:13,16 453:3 479:1 502:22 506:23 adopt 378:20 417:6,20 519:19 adopted 377:21 378:12 442:10 advertising 361:3 advised 510:13 advocate 454:23 455:10 affect 342:4 344:18 420:10 affected 351:10 affecting 339:20 affirmative 408:24 458:14 affordable 493:10 504:20,24,25 505:2,3 afternoon 413:21 415:24,25 440: 1 453:9,10 470:7,8,10 500:23 506: 9 507:6,7 ago 349:10,11 421:3 443:17 agree 345:9 359:22 360:18 361:9, 10 362:17 364:25 368:25 369:14 371:10 372:19 393:3 400:11 409:6 410:19 419:23 423:2 434:14 453: 14,20 454:9 457:20 462:6 466:11 484:2 487:11,13 494:19 497:14 507:25 511:9 514:3,6,11,21 515:1, 22 516:3 519:4 520:21 522:25 524: 15,19 agreed 442:16 520:6 agreement 412:11 agreements 459:24 agrees 349:2 422:17,22 ahead 355:14 372:6 373:1,3 375: 12,14 381:22 413:24 422:13 424:3 426:20 481:5 ain't 494:21 aligning 468:10,13 allocate 420:8 480:13 482:25 484: 14 520:3 allocated 480:8 485:11,21 520:4 allocating 480:9,12 482:14,16 allow 347:7 378:9 385:25 408:2 483:14 503:17 516:8,12 allowed 486:2,3,4 allows 515:3 almost 382:2 419:7 437:22 451:6 510:8 alone 372:15,18,19,22 398:19,20 488:19 already 348:20 395:8 408:18 473: 3 477:21 512:13 526:3 528:1,1 alternative 450:9 although 364:20 431:19 435:2 459:25 479:14 among 418:20 465:5 490:18 493: 18 512:2 520:4 532:12 amount 346:3 386:7 393:13 417:8, 10 418:9 422:24 426:2,4 437:24, 25 493:4,6,7,11 514:4 519:22 521: 10,15 522:7,22,23 523:1 527:1 528:6,7,8 amounts 489:3 510:18,18 analog 348:19,20 analysis 341:24 346:14,18 359:9 364:19 382:8 446:7,8 472:15 487: 24 499:1,3 501:9 533:16 analyze 473:21,25 474:6 analyzed 426:2 ANI 458:6,6 annual 422:24 443:13,13 annualization 433:1 another 341:25 356:4 357:12 372: 12 383:5,5,6,6 416:14 472:23 477: 23 478:5 answer 356:14 364:6 367:4 371: 16 399:20 411:11 431:4 433:23 446:5 458:15 499:22 503:13 512: 16,17 515:25 answered 384:20 385:2 409:22 439:16 464:11 465:12 470:23 503: 10 515:5 524:3 answers 342:8 388:2 415:10 452: 22 506:18 Anthony 386:24 387:5,9 388:1 anybody's 414:6 apart 460:6 apologize 339:16 380:4 439:17 468:1,3 478:14 496:2 499:23 502: 10,14 apologizing 502:11 apparently 473:21 474:5 532:16 appear 451:17 appeared 339:9 351:5 appended 402:3 Appendix 422:15 499:5 apples 492:7,7 applicable 471:21 application 466:21,23 applied 351:7,9,9 433:1 446:6 447:5 449:9 461:19 471:11 472:1 492:12 applies 365:1 438:17 466:6 apply 393:5 418:8 428:9 439:3 477:7 483:11 applying 433:7 434:11 461:7 462: 1 465:15 appreciate 424:1 436:14 approach 375:13 418:18 422:11 464:20 498:15 appropriate 350:8 443:24 454:19, 22 467:15 473:5,6 502:6 510:15, 16,17 511:24 513:1,9 517:21 appropriately 488:23 approve 462:22 approved 420:24 421:5,7 424:13 434:8 481:3,7,17 482:9,9,15 483: 25 485:2,7 487:7 approximate 435:3 approximately 394:11 395:15 416:11,19,23 417:2 418:3,9 420:6, 7 425:8 459:21 514:15 519:6,13, 15,17 526:10 527:16,19,20 528:6 approximates 378:15 arbitrage 455:12 474:23 496:25 area 395:22 416:4,14,16 420:4 432:8 438:1,16 439:3 443:18 473: 22 474:9 490:19 493:8 527:13,14 531:14 areas 475:3 493:7,16	aren't 436:24 arena 378:17 arguable 372:16 argument 376:21 467:20 arguments 426:15 arise 441:17 arithmetic 494:21 510:24 around 499:11 504:25 arrive 437:1 arrived 364:13 aside 344:13 440:17 ASR 374:13,14,15 375:5 assemble 520:23 assertions 345:7 assessing 523:7 assigned 520:5 assume 354:21 355:20 358:2 360: 23 365:5 367:14 369:25 370:9,13, 16,22 371:6,20 385:11 403:5 457: 5,8 462:25 466:14 477:24 515:10, 11,16,20,21 522:24 assumed 533:14 assumes 365:13 assuming 356:2 371:3 382:4 385: 15 456:21 468:11 523:5,6 assumption 357:1 361:1 362:12 370:25 377:15 assumptions 360:20 369:21 499: 6 AT&T 342:18,19 343:24 344:18 352:3,12 353:12 359:24 375:16,21 376:7 380:9 393:13 399:4,11 408: 14,15 470:2 497:3 AT&T's 393:12 attached 338:8 339:23 Attachment 401:18,22 402:3 403: 15 attachments 339:23 attempt 347:4 348:6 529:19,22,25 attend 465:7 attending 535:4 attention 412:20 attract 406:7 407:19,21 attributable 353:6 attributed 364:11 August 420:18 421:22 422:2,25 423:5 424:15 428:5,8,10,17,18 429:2,4,11 430:2,3,5 431:2 432:11 433:25 434:13 443:9,15 483:7 484: 10 authority 453:18 470:21 authorized 485:10 available 342:17 388:8 404:24 415:18 431:22 506:24 529:20 average 341:18,23,24 378:16 394: 23 395:10,15,16,18,20 491:21 526: 10 avoided 354:6 471:6,11 472:1 aware 390:2 399:9,13,20,21 400: 18 405:13 407:8 408:7,11,19,22,23 409:1,2 421:4 427:10,13,15 428: 21 429:5 439:18 454:6 456:8 457: 24 458:5 459:22 462:8 464:24 465: 1 474:14 480:22,25 481:6 482:3,8, 13,15,19,20 488:5,10 489:14 497:3, 8,9 512:5 away 480:8,13 485:21 517:13	366:21 379:8,11 389:9 413:20 424: 10 429:24 431:3,5 441:9 467:9 468:2 472:15 478:12 532:2 balance 418:20 496:19 balancing 419:5 Ball 413:22 414:2,14,15,20,23 415: 4,18,24 416:13 420:1,2 422:14 424:8,11 437:22 440:17,25 442:9 446:19 448:7 451:21 465:4 518:22 526:18 Ball's 423:22 527:8 band 368:23,23 369:17 bands 528:5 Banerjee 345:13,15 346:14,17,20, 24 347:8 Banerjee's 347:2 base 438:14,15 441:12 507:23 508: 18 baseball 437:22 based 347:5,24 360:6 362:12 368: 22 378:21 382:15 388:25 390:24 391:4,6,7,19,23,25 392:11 420:18 421:22 422:25 423:4,23 424:14 426:1,6 428:8 429:10 430:2 431:9 441:19 442:16 443:25 454:3 461: 25 463:6 464:3,5 481:11 483:15 488:1 524:17,22 526:9 bases 487:19 basic 417:7,21 418:25 475:25 488: 8,15,18 489:1,15 490:1,6,9,18 491: 5,11,13 492:17,21 493:25 495:15 496:12 504:2 507:12,17 508:1 509: 2,4,10,15 511:11 512:7,11,23 514: 3,6 515:17,18 516:15,17 517:4,11 518:15 519:19,20 525:13,19 527:2, 18 528:14 529:3,13,14 530:23,25 532:5,18 533:17,22,24 534:2 basically 360:6 425:20 464:17 484:20 485:6 basing 465:9 basis 341:12 360:10 369:19 382:7 391:22 392:3 407:21 411:6,6,14, 15,17 412:9 413:7,13 443:15 466: 15 481:8 523:22 528:14,16 bathroom 379:7 becomes 344:6 begin 337:5 425:22 beginning 352:24 389:12 390:9 422:18 516:1 518:25 531:18 begins 413:1 428:10,10 478:3 behalf 337:24 387:10 414:24 452: 7 476:20 506:4 behavior 529:6 behind 363:22 belief 359:10 423:23 believed 433:10,15 believers 344:20 believes 376:24 385:21 396:16 481:7 Bell 377:21 378:13 421:7 432:24 441:8 below 372:21 406:4,15 407:18 461:5,9 462:13,24 463:12,20,25 468:5 471:11 478:3 507:19 508:1 510:4 511:7,11,16 bench 450:10 488:8,19,22 492:18, 21,24 493:2 494:25 495:7,9 504: 15 507:9,15,19 508:2,4,8,15 510:1, 4,7,15 511:5,7,11,16,20,21 512:8, 12,24 513:3,16,22 514:5,9 521:7, 13 533:17,23 534:9
--	---	--

B

B-4 499:5,5 500:4 501:15

B-a-l-l 414:20

back 337:3 346:8 350:1,14 362:4

benefit 419:24 420:4	calculation 526:6	11,15	23 462:5 510:21 526:24
benefitted 459:6	call 350:16 355:21,21,22 356:12	cents 378:13 394:24 398:8,12,15,	closed 388:25 421:23 467:3 488:8
besides 480:9	357:5,11,14 366:10,11,16,24 367:8,	17,20,24 469:7 516:18 526:11	closer 509:25 511:5 513:16,22
best 478:20,22 484:9 487:17 523:7	9,17 372:24 383:7,10,18,24,24 384:	certain 351:7 390:6 395:18,22,24,	514:4 525:10,13
better 417:12 419:14 497:24	1,2 414:14 458:1 474:6 476:16	25 396:14 398:1 429:16 432:16	closest 439:1,5
between 365:25 369:2 377:5 378:	485:18 491:7	434:21,23 440:21 444:24,24 486:	clue 498:1
3 385:19 395:3 416:9,18 418:24	called 337:24 387:10 408:12 414:	21 492:2	colleague 510:13
455:12 461:15 471:4 488:7 492:16	24 450:9 452:7 476:20 477:7 481:	certainly 348:21 349:8 425:19	collected 368:2 531:24
493:1 496:19 508:14,19 512:6,11,	8 506:4	441:2 500:9 505:2	collection 360:19
22 519:5 521:7 526:21 527:15 530:	caller 356:19 357:9 383:8 491:7	cetera 359:3,3 425:23 472:21 474:	colon 422:20
10	caller's 356:5,7	12	Colorado 399:5,7
beyond 407:15 409:20 434:13	calling 354:11 388:18,18 408:9	chance 425:7 444:25	column 477:12,13 532:8
bifurcate 449:21	409:8,9 410:22,23 414:1 490:13	change 338:17 339:11 348:4 370:	columns 340:14 449:12 477:9 531:
big 432:14	491:7 510:20 520:25	21 399:9 434:22,22,23 435:9,10	23
bill 384:19 386:8,13,14 405:15	calls 382:17 385:5 386:24 404:17	440:4 457:2 472:3 477:6,21 478:7	combination 376:19 466:7
411:5,13,16,22,23 412:2,4,7,8 413:	405:16 407:1,2,6,21 408:14 409:	495:1,9	combinations 466:3
6 425:21,25 426:5 427:4,12,21	17 410:21 411:7,13,14 473:21,25	changed 477:12,16,18	Combine 345:6 471:8
428:2 502:15 512:4 530:18	474:1 475:12 486:5 499:3,7,16	changes 339:17 341:13,18,19,20,	combined 465:16,24,24 471:11
billing 360:19 361:18 385:5,22	501:9 532:1	21,22,25 342:1,4 349:12 351:10,11	472:2
386:7,10 420:19 421:22 423:1,5	came 406:8 483:10,20	371:3,25 387:19 431:10 452:15	come 347:13 355:4,5 391:21,22
424:15 425:14 428:9,16 429:11	Cameron 476:13,17,19,25 477:6,	477:4,7 478:16 512:3	430:23 443:24 444:10 460:2 471:
430:2,8,11,12,17,21 474:12 483:7,	23 478:5,8,16 479:8,10 486:7 493:	changing 342:3	11 472:1 527:4
10,15 484:10	20 498:22 500:20 504:14 505:13	channel 465:17,23 466:12,19 467:	comes 374:9 406:3 441:16 485:19
bills 361:14,15 384:17 405:18 413:	Cameron's 500:3 510:19	6,12,17	comfort 445:7
11	cannot 345:4	characteristic 405:6	comfortable 439:15
bit 360:16 404:14 436:10 440:25	cap 456:14 463:11,14 470:16,21	characteristics 409:25	coming 360:7
516:24	472:24	characterization 359:14,18,22	comment 436:9
blocks 373:18 392:8 481:8,10 482:	capability 490:12	characterize 377:7 467:8	comments 359:8
4,10,11 486:17 520:23,25 524:11	capable 404:18	characterized 518:12	Commission's 392:5 449:5 459:1
bolded 532:9	capital 499:4	charge 340:13 369:23 488:7 492:	510:10
borrow 352:9	caps 463:7	17 510:14 512:7,11,23 526:8,13	commitment 394:1
both 344:4 366:11 367:19 380:22	capture 406:5	531:2,4,6,11 532:13,15,19 534:13,	commodity 444:6
396:4,5 407:20 409:4 410:22,25	capturing 444:23	14,16,19	common 340:13,16,23 341:2 369:
443:19 468:10 477:8 525:19 527:4	Card 386:10,13,14	charges 339:3 361:15 381:14,24	23,23 392:1,12 454:7,11 459:23
528:5,10 529:15	care 361:5 414:2	382:25 383:23 384:19 399:14,15	460:13
bottom 340:12,20 343:4 363:17	career 374:12	400:8 478:9 510:20	commonly 455:20 457:25 514:7
387:22 532:9	carried 402:5 403:17	cheapest 466:18	517:17
bought 467:11	carrier 340:13,16,23 341:1 344:	check 420:12 447:17 517:23	communication 524:21
bouncing 468:1	18 354:15,20,25 355:6,16,17,17,20,	choice 400:2 405:2	Communications 403:18 499:2
break 379:7 413:20 424:12 425:6	23 356:2,3,6,8,10,17,20 357:10,11	choose 344:19 372:9 386:9 400:15	companies 349:21 377:22 378:13
442:22 483:14	359:21 362:9,23 365:24 366:10	523:12 524:4,10	395:3,19,22 396:8 442:14 475:9
breaks 379:13	367:8,10,11 368:7 369:6,10,23	Christmas 444:23	529:7
brief 475:3 533:2,4	374:4,24 383:21 386:9,11 405:1,3	circle 418:20	company 346:15,16 348:21 350:4,
Brigham 363:4 531:21,22 532:4,7	406:3,9 410:14 459:7 471:24 493:	circuit 355:25 357:17 383:19,23	14 351:19 354:14 410:12 419:18
Brigham's 481:12,21 526:9,14	13 521:6 522:9,14,23,24	405:7 410:2 411:17,17 412:3,7	439:1 494:14 497:15 518:8,17 526:
531:17 533:9,21	carrier's 355:18 365:25 366:19	413:12	4 527:14 532:16 533:19
bring 513:21	carriers 338:18,21 339:4 343:16	circuits 365:25 400:16 469:21	company's 343:7 347:12,20,22
broken 483:9	344:6,14 345:7,24 359:12,25 360:	circumstance 367:6 497:22	350:2,25 419:16 514:16 518:9 526:
brought 509:25 511:5 512:4 513:	14,15 364:17 365:11,21,24 374:9	circumstances 369:15 515:7,8	3,4,9,18,19 531:16
16	376:18,22,25 377:8 380:10 381:25	521:23	company-wide 528:14
building 373:18 392:7 481:8,10	382:2,6,9 411:18 496:17	cite 391:11	compare 492:7,7 523:8 530:5 532:
482:4,10,11 486:17 520:23,25 524:	carriers' 378:2	cited 347:1	20 533:11
11 535:1	carries 381:25 382:3 532:13	claim 389:10	compared 488:19,23 492:20 511:
built 481:14 485:6	carry 359:25 380:10 382:6 404:16	clarification 356:1 381:3 382:16	21 534:4
business 368:4 396:3 400:3,10,12	405:7 445:12	459:22 509:14	compares 380:21 409:16
408:13 410:10 420:6 430:25 432:7	carrying 354:2 356:12 357:6 366:	clarified 439:21	comparing 382:15 465:23 510:7
438:17 439:13 443:18,19,21 458:	10	clarify 359:20 423:21 426:9,19	533:17,22 534:6,8
24 471:25 472:5 480:11,13 485:13	cases 366:4 404:19 441:6,18 446:6	427:10 468:24 475:23 504:22	comparison 493:18
486:3 507:8 516:4,15,16 517:4,11	447:5 448:23 449:12,14,15	clarifying 503:6 504:1	compete 395:19 503:9,16,17 515:
518:11 527:4,15 528:4,15	categories 419:5	class 426:6 519:11	3
buying 528:23	category 483:17	classes 420:11	competing 343:15 345:23 359:12,
bypass 353:20 382:24	cause 348:21 349:22	classified 493:25	21 362:23 395:23 396:16 498:3
bypassing 367:11,12	caused 488:10	clause 422:18	Competition 496:7,13 497:2 514:
	causes 347:1	clear 351:4 357:4,5 364:7 382:13	22 516:3,8,13 524:17
	caveats 386:1	411:3 454:1 455:7 487:1	competitive 353:6 374:24 395:1,9,
	CCL 370:1,10,13,17 371:9,10,21	clearly 419:25 524:1	14 397:1,7,21 398:11 496:16
	390:15 489:2	CLEC 460:16 461:8 471:5,6 522:	competitor 503:9 520:24 521:24
	cent 360:7	4,14,24 523:8	524:4 528:25 529:1,13 530:3
	center 521:9,19	CLECs 460:12	competitors 344:4 394:13 397:10,
	centers 510:8,9,10,11 531:1	client's 395:8	11,14,16 405:21 497:16 515:3,23
	Centrex 430:24 443:21 477:7,8,	close 358:3 385:8,23 386:3,4 453:	524:10 528:22

C

C-A-L-L-S 499:4

C-a-m-e-r-o-n 476:14

cable 497:4

CABS 474:12

CALC 532:13 534:13

calculate 349:4 445:23 446:1

calculated 426:7 526:8

complicated 349:4
complies 512:20
comply 392:6
component 371:10
components 362:21
composite 378:14,16,18
concept 364:24,25 368:25
concern 359:17 432:14 436:15
concerned 455:23
concerning 432:15
concerns 363:18 474:23
concluded 475:19
conclusion 511:6,8
conclusions 342:4
conditions 423:1 424:25 427:8
 516:8,12
conducted 449:20
confer 468:21
confident 481:11
confidential 400:19 401:17,22
 402:3 403:15 531:19
configuration 366:6 367:18 374:5
configurations 365:9,10 367:24
configure 355:3 365:18,19 368:7
configured 365:23 369:3
confused 430:20
confusing 427:23
confusion 339:16
conjunction 517:2
connecting 365:25
connection 354:15 448:23
consider 392:22,24 405:7 410:1,
 22 443:14 467:6,15 520:9
consideration 485:24
considerations 439:12
considered 398:11 418:24 419:2,
 3 432:2 485:3 487:3 491:4
considering 410:20 419:4 467:18
considers 532:17
consistent 483:6,11 496:20
consisting 467:16
constant 443:22 444:7
constitute 372:20 466:8
consult 437:1
consultant 393:23
consumers 393:14
contained 387:25 490:1 501:14
contains 340:5
contention 424:16,18,19
context 350:17 364:8 385:25 392:
 10 402:18 425:2 483:2 494:13 500:
 17 504:24 508:25
continue 406:14,16,17 420:10
 438:3
contrary 348:14 388:24 390:23
contrast 394:13
contribution 372:23 377:16 392:
 1,12 454:7,11,15
convenience 504:4
conversation 444:8,18 518:24
conversion 345:19
converted 353:24
copied 340:17 401:16
copies 389:18 477:20
copy 339:6,7,8 352:4,5,8,11,14
 389:17 424:4 448:4 489:17
corner 352:23
corrected 342:9,13 391:12
correction 339:22 387:24
corrections 337:18 338:14 339:

20 340:6,7 341:11 342:7 387:19
 415:7 452:15 506:14
correctly 430:1 450:11,19 451:12
corresponding 478:12
costs 359:11 360:1,8,11,15,17 361:
 2,5 362:4,6 371:22 380:11,16 382:
 9 384:15 386:3 392:2,12 454:7,11
 480:23 481:7 482:1,4 483:14,14,
 16 484:4,12 486:2,2,16,19 487:13
 489:4,6,11 491:22,23,25 492:2,3,8
 493:19 494:16 523:9
couldn't 472:20 499:23 520:14
counsel 423:19 436:25 437:15
 504:14
counting 510:14
country 502:15
couple 344:12 367:4 437:15 443:3
 475:3 508:25 520:20 534:14
course 425:19 523:6 530:11
court 431:5 502:11
courtesy 402:3
cover 485:4
covered 470:24
covering 484:16,17
covers 399:15
create 526:20
created 517:6
credit 426:3 427:21 495:6
credited 426:2
credits 425:21 426:1,5 427:5,12
 428:2
criterion 511:24
cross 342:17,22 343:23 358:9 379:
 14,16,17 388:9,13 414:6 415:18,22
 437:10 440:16,20,23 442:2 452:25
 453:7 470:5 479:2,3,6 498:20 503:
 4 506:25 507:4 525:6
current 340:14,15 341:3 369:25
 370:10 377:20 378:12 395:4 398:
 12 406:6,9,13 422:25 427:11,15
 428:19 432:3 434:20 435:1 438:3,
 4 453:24 456:3,14 459:1,25 464:6
 469:5 470:19 507:25 508:19 511:7,
 10 526:2,12 533:20
currently 376:17,22 395:5 398:11
 406:1 494:8 510:4 517:9,16,20
 519:23
cushion 463:19
custom 491:6 510:19
customer 355:16,24 356:18,21
 357:10 361:5,16,16 366:11 383:4,
 7,8,11,13,14,19,22 385:6 398:5
 403:11 405:6,11 406:15 409:6 410:
 9,11,21 411:5,5,12,18 438:14,15
 467:11 521:24 522:5,6 523:2,8
 529:4
customer's 355:23 356:9,17 357:
 1 384:19 386:8 426:6 438:21
customers 357:20,22,24 361:15,
 21,22 365:17 366:11,12 373:23
 374:9 384:17 385:23 395:23 396:
 15 399:7 400:4,7,9,10,13 405:5,15
 406:5,6,7,13 407:2,6,9,19,21 408:8
 409:7 410:1,3 411:23 413:6 419:
 24 427:5,7,13,17 438:13,17,18 458:
 22 490:13 496:8,13 497:4 514:12
 515:4,24 516:4,9,13 517:11 519:
 11 521:1 529:1
cut 429:17
Cynthia 452:2,6

D

D-i 387:6
D2 391:7
data 346:10,14,17 347:5 375:21,
 25 401:18 428:1,5 441:12 457:25
 479:14,15,24 480:2,2,3,4,4,5,6 481:
 14 483:7 512:14,17 513:5 514:16,
 18 526:3,6 531:22,23
date 425:22 433:18
dated 499:2
dating 401:24
day 337:4 444:22,23
days 422:23
deal 419:11
dealing 444:6,7,8 445:12 500:16
dealt 436:22
deaverage 496:20
deaveraged 496:20 517:16 523:
 22
deaveraging 496:18
decide 441:11 520:3
decimal 377:22
decision 377:12 441:13 448:15
 460:10 520:12
decline 348:20
declining 348:9
decrease 353:4 417:9 418:8 419:8
 483:4 494:14 496:12 527:14,21
 528:10
decreased 527:19
decreases 347:14,15 351:20 446:
 10 483:12
decreasing 519:22
dedicated 354:2,5 356:22 402:5,9,
 22 403:1,11,17,21 404:24 413:7,12
defer 439:23
define 371:19
defined 475:25 489:15 491:12
definition 364:25 372:8 490:1,6
 504:2
delivered 350:10
demand 353:8 429:5 431:9 434:
 18 443:9 499:6
depend 372:8 396:11 516:1 524:
 12
depending 368:1,24 369:16 434:
 24
depends 461:16 484:3 513:23 515:
 7
derive 354:2
derived 364:13
describe 340:7 367:5 396:8,9
described 425:23 427:3 445:10
description 513:4
design 368:4 394:9 416:13 418:1,
 21 420:1,17,18,20 421:21 422:3
 424:14 425:13 426:24 428:16 430:
 7,20 449:21 450:6,15 451:3 454:
 21 464:21 465:5 483:2 528:3 533:
 12
designed 392:15,18,25 493:4
designs 439:13
detail 351:17
details 373:23 450:3 528:2 532:2
detect 457:14
determinants 483:7,11,15 484:10
determination 422:3
determine 360:4 362:3,19 372:9,
 14,17 382:1 428:1 432:9 458:1
 474:13 479:16,24 485:3 520:10
determined 363:5,8 382:1 493:6,
 9

determining 362:6 372:16 376:
 18 443:13 474:21 484:21 513:10
 530:16 532:20
DeTirro 386:23
develop 514:23 516:9,13
developed 486:17,19
developing 418:22
deviate 446:1
deviates 468:12
differ 365:9 416:15
difference 344:23 377:5 416:9,18
 417:10 438:13 478:2 488:6 492:16
 493:1 496:15 512:6,11,22 519:4,
 22 521:6 526:20
differences 369:2
different 338:25 348:9 358:15
 365:18,19 366:4 372:22 420:11
 433:22 438:6,15 468:18 469:15
 481:15 486:17 517:6,7,10,10 518:
 1
differential 378:3 437:25 438:12
 439:3 518:13
differently 340:5
differs 416:4
difficult 344:13 345:1 349:16
diminution 434:18,24
dinner 408:9
DIRECT 338:1,6,16,23 339:24
 342:8 358:15,23 367:10 387:13
 388:1 389:1 390:5,8 415:2 425:12
 452:10 467:25 468:6,25 476:23
 477:1,5 479:11 481:23 484:15,18
 494:16 496:2,5 501:4 506:7
direction 376:3 495:13,18,20,22
directly 354:20 388:24 390:22
 395:23 396:16
disagree 343:10 458:17 466:15
 482:22 483:23 487:6 514:17
disagreeing 486:24
discount 459:23 460:13,22 461:4,
 7,19 464:8 471:6,11 472:1 521:25
discounted 460:17 461:8,20
discounts 460:1
discreet 444:10
discrepancy 389:21
discuss 353:19 359:10 363:18 404:
 22
discussed 418:19 465:6
discussing 357:20 377:25 445:23
discussion 368:14 400:24 468:23
 501:9 503:25
discussions 350:12,17 500:8
disparity 460:21
disposition 422:23
distance 339:3 490:21 529:15,16
distinct 450:5
distinction 528:24 530:9
distinguishing 450:22
distributed 340:25 352:2
distributing 352:3
DiTirro 386:24 387:5,9,15 388:1,
 8,15 400:25 401:10 404:8,13 406:
 25 412:20 413:17
divide 360:12
divided 360:9
dividing 341:25
Division 499:1
docket 373:8,10 392:15,18,25 426:
 24 435:23 453:21 459:25 472:21
 483:25 492:13 510:11 522:10
dockets 481:3

document 340:10 351:24,25 352:15 375:16,20 403:13 448:11 489:20 502:12 517:22
 documents 351:20 401:12
 doing 368:5 397:22 423:4 444:2, 23 465:22 497:7,10 513:15 533:16
 dollar 399:5 509:2,19,24 511:4 514:2
 dollars 386:12 477:9,10 484:8 509:5,7,19,24 510:25 511:4 514:2 519:12 527:16
 dominant 361:8
 done 347:4 356:25 360:4 399:24, 25 462:21 482:19,20 499:1 526:24 528:8 532:21
 double 349:13
 doubt 520:2
 down 360:10 412:25 434:25 480:16 483:9,14 490:3 528:6,18
 draw 511:6 522:18,22,23 523:1
 drew 530:9
 drive 360:9
 drop 343:17
 dropping 344:4
 DS1 354:15,16 355:6 468:7,10,15 469:1,13,14,15,22
 DSL 529:20
 due 347:1
 duly 337:25 387:11 414:25 452:8 476:20 506:5
 during 408:9 440:4

E

each 368:19 399:6 419:5 449:12 459:7 465:19 466:6 467:2,18 485:4 521:10 528:5
 earlier 350:2 351:5 368:6,13 374:3 382:21 391:24 429:17 431:20 452:19 470:10 518:22 522:21
 earning 494:15
 EAS 416:15 417:1,2,9,17,18 418:8, 25 419:11,12,17,23 420:10,15 431:1 438:11,14 439:4,12,13,18 443:21 478:2 489:1,12 491:23 519:1,14, 16,22 527:1,3,6,19,22 528:4,14
 easier 344:6 349:18 433:23 503:9
 easily 373:22
 economic 494:17 513:8 515:8 521:17,18 523:8
 economically 405:1
 economics 404:20
 economist 497:12
 edification 504:5
 effect 341:5 349:14 351:13 390:18 392:5 398:25 411:6 427:12 429:12 430:24 433:18 435:9 440:4 443:14 527:25
 effective 400:1 425:22 433:11,15, 20
 effects 429:13 434:13
 efficient 366:2 368:10,18,21 369:1 374:6
 efforts 392:5
 eight 421:3
 either 368:19 374:13 381:6,16 386:15 396:5 423:17 472:3 474:19 491:19 522:7,22
 elasticities 500:7 501:13
 elasticity 431:20,22 432:9 440:1,2, 3,7 499:6 502:3
 electronic 389:14 477:18,19,21
 element 362:7,20 371:11,13 372:

18 373:10 376:14 378:4 392:16 438:5 461:21 466:12,19 467:6,10 479:20 480:6,10,13,15 483:1,16 493:18 495:8
 elements 362:8,14,22 364:15 370:23 375:1,3,6 376:19,23 377:1,9,13, 16 378:1,15,22 392:7 453:16 465:20,24,25 466:3 467:16,18,25 471:8 479:17 483:9
 eliminated 391:9 489:4
 eliminates 370:16
 eliminating 391:21
 elimination 369:22
 employ 475:15
 employee 393:17 399:17
 employs 480:4
 enacted 530:17
 encourage 524:16,21
 end 356:20 357:16 366:23 367:12, 12,19,20 368:11 374:14 394:12 413:11 479:13
 ends 366:11
 enhance 497:2
 enough 425:3
 ensure 462:9
 entered 350:10
 entire 393:13 420:20 423:12,14 425:7 427:25 444:16 482:16 487:14 518:23 520:7 526:25
 entirely 439:3 527:6
 entities 444:10
 entries 477:7
 envelope 384:25
 environment 386:4
 equal 399:2 455:2 516:21 528:20 530:7
 equals 478:14
 equivalent 368:17 373:9 376:14, 20 377:13 382:5,5 388:19 413:3 471:7 490:11
 especially 443:18 444:20 483:2
 establish 376:13 450:10 471:15 508:25 516:12 517:14
 established 364:15 373:10 388:19 426:24 470:14 500:18 513:7 517:10 521:8 522:9 526:11
 establishes 467:2 487:2
 establishing 362:18 513:1
 estimate 361:10 428:3 445:7
 estimated 489:5
 et 359:3,3 425:23 472:21 474:12
 even 344:25 345:2,3 403:4,25 404:3 406:13 410:11 419:11 464:7,7 480:17,19 494:20,20 495:5,7,11 496:24 499:9 502:2,4 510:18,20, 24 518:8 520:4,6,6 534:4
 evening 408:12
 event 346:5,7 447:9 522:7 526:18
 everybody 349:2 368:25 489:23
 everyone 520:6
 everything 429:23 485:14 497:19, 21,23 502:4 503:15
 evidence 338:18,21 339:12 365:13 418:23 487:25 489:8,10 495:21
 exact 416:12 500:4
 exactly 360:21 364:18 366:5 451:17 508:7 518:17 521:14 530:19
 EXAMINATION 338:1 342:17, 22 343:23 358:10 379:23 384:12 387:13 388:13 404:11 406:23 412:18 415:2,18,22 437:10 440:16,23

443:6 446:17 452:10 453:4,7 470:5,25 473:12 475:5 476:23 479:6 498:20 503:4 504:12 506:7,25 507:4 525:6 533:6
 examine 423:14 508:11,13
 examined 337:25 387:11 414:25 421:2 423:12 452:8 476:21 506:5
 examining 487:11,13
 example 344:17 345:19 348:17 351:14,16 354:1,13,14 357:16 362:2,5,18 363:10,19,22 364:10 366:8 367:15 372:11 396:12,12 400:12 532:3 533:25
 examples 353:23
 exceeds 478:13 526:3
 Excellent 535:9
 except 422:4 423:7 455:3 525:17
 exception 423:11 430:10,11 459:13 461:11
 exceptions 459:15,17
 exchange 354:21 374:24 418:1 430:25 432:7 437:18 438:25 439:11 471:24 490:13 494:2 496:16 526:20
 excluded 485:23
 Excuse 338:22 352:20 358:13 380:25 399:19 418:1 448:20 515:12 525:16
 excused 386:22 413:17 451:22 476:8 505:14 534:24 535:4
 Exhibit 338:5,11 339:17,20,23 340:3,8,10,11,12,13,20 341:1,7,8, 12 387:17 388:5 401:15 402:2 403:14 412:21,21 414:8 415:5,5,13,13 416:9 426:7 427:6 438:12 447:20, 23,23,25 448:8 469:1 479:11 489:23 498:10,12,15,23 500:12,21 504:3 506:11,11,12,12 526:9 527:9 528:2 531:18,19,25 532:7 533:9, 11,15
 Exhibits 338:8,15 342:12 401:1 415:16 425:9 452:13,16,19,24 453:2 469:12 477:1 481:20 506:21,23 531:17
 exist 456:2 496:8
 existing 343:17
 exists 372:16
 expect 358:4 360:14 374:7 502:3 529:13,17
 expected 443:25
 expecting 344:22
 expedient 366:2
 expenses 491:24 530:6
 experience 347:25 474:9
 expert 350:7 419:11 420:15 439:11 522:1 529:6 531:14
 expiration 422:23
 explain 341:12 450:4 461:22 485:5 502:2
 explanation 350:1
 explicit 391:1,16
 explicitly 493:11,13
 explore 419:19 523:22,25
 expressed 351:20
 expressedly 391:20
 extended 416:16 420:3 432:8 438:1,16 439:2 443:18 490:19 527:13, 14
 extent 347:16 381:9 419:3,6 489:4, 6
 extra 352:8 418:14

F

facilities 365:8,9,10,10,18,19,22 366:3,6 368:20,20,23,24 369:18 383:14 402:5,10,16,22 403:2,11,17, 22,25 404:4,16,19,24 405:3,15,17 413:7,11,12 524:17,22
 facility 354:3,5,17,18 355:6,19 356:22 383:5,12 403:21
 fact 343:15 344:3 345:2,6,8,22 348:5 369:4 376:24 378:7 398:20 407:20 445:11 500:4,15 502:1 511:6 521:3
 factor 343:6,14 434:12,16 435:8 455:18,21 513:9 515:9,10 521:2
 factors 345:15 431:20,22 432:9,14 441:24 442:10 510:23 513:2,3 514:25 515:9 516:1 520:8 524:7
 facts 365:13 382:22
 fair 353:3 358:2 374:8 377:14 399:18 425:3 446:22 461:11,22 463:22 483:23 486:15
 familiar 374:20 401:10,11 409:14 420:23 421:13 458:6 499:8 522:19, 19
 far 344:21 408:17 426:16 458:7 460:12 492:4 507:9 530:14
 fault 478:15
 FCC 376:17,21,24 377:4,18,21 378:6,12 467:23 491:18 492:2
 FCC's 377:11 378:1
 Feature 475:15
 features 485:17 486:4 489:2 491:7,17,19 492:4,5 510:20
 February 422:1,7 428:23 443:11 444:15 446:25
 federal 353:6 489:3 499:1 524:20 531:3
 federally 534:16
 fee 386:12 405:18
 feel 437:5 439:15 457:1 461:3
 feeling 445:7
 feels 502:19
 feisty 500:23
 few 473:10 515:7 518:23 532:11
 fifth 413:4 478:5
 fifty 503:18
 figure 416:12 445:23 501:17
 figures 341:1,6
 filed 339:8 341:8,17 342:14 352:14 428:16
 filing 428:19 448:22
 final 422:23
 financial 425:9
 find 349:12 355:23 357:19 394:6 396:18 419:25 423:25 436:22 447:24 468:15 489:8,10
 finding 504:19
 fine 434:5 439:21,24 451:15 464:12 467:22 488:3 500:13
 finish 436:24 484:24
 finished 373:18 472:8 481:3 522:5
 finishing 373:22
 first 337:24 340:1,2,8 347:22 370:22 383:8,11 387:10 391:2 404:14 406:2 414:24 416:22 422:17 425:20 437:16 452:2,7 453:12 473:14 476:20 477:5,6 478:9 483:5 490:3 506:4 520:2 532:4
 fits 449:25
 five 379:9 386:12 394:11,17 462:

14 469:15 528:5
fixed 360:12 469:4 526:7
flat 386:12 405:18 411:6,14,24,24
 412:2,7,9 413:10 488:18 493:23
 494:2 509:10,15 511:10 512:19
 513:12 514:3,7 515:17 516:17 518:
 10 525:21 532:5
floor 461:2,9 462:6,10,24 463:4,12,
 20 465:16,20 466:4,19,21,23,24
 467:2 470:15 479:14 480:3 508:20
 511:23,23 513:7,8 518:12,16 521:
 7 526:4,5,14 532:20 533:12
floors 363:2,5,8 462:13 487:2,8,11
 531:24 534:4,6
flow 343:25 344:24
flows 368:1
fluctuates 429:6
focus 396:8,10 480:21
follow 350:25 379:18 384:6 386:
 19 397:18 406:20 440:20 446:14
 475:2 476:5 503:7 505:7 522:3
 533:2,3,4 534:23
following 423:1 424:24 427:8 428:
 18 435:9 477:12 478:1 491:6 493:
 24
follows 337:25 387:11 414:25 452:
 8 476:21 506:5
footnote 387:21 477:23 479:19
forced 394:13 397:11,15,21 405:
 21
forecast 433:9,14,24
forecasts 434:7
forget 401:5
forgot 524:2,3
form 352:14 365:12 371:13 374:
 24 393:14 442:1 450:9,9 470:15
format 340:4 386:10
formerly 447:18
forms 374:21 524:16,21
forth 360:7 383:1 426:7 427:6 490:
 7
found 357:17 359:23 390:3,9 416:
 13 425:16 466:25 469:1
four 341:11 461:24
fourth 390:6 412:25
fractions 386:5
frame 429:21 448:9,15
frankly 459:4
free 436:18 437:4
friendly 442:1,6
front 338:5,11 401:1 448:13 489:
 17 508:22
full 352:18 413:21 432:12 495:6
fund 493:5 504:17 510:12 521:5,
 11,16 522:7,11,15,18 523:2 531:2
fundamentally 349:6
funds 522:11
further 379:3 384:4 386:18 404:7
 406:18 412:14 413:15 435:18 442:
 20 451:17,20 469:25 476:2,4 498:
 7 502:21 503:20 525:1 532:22,25
 534:22
future 435:2,2 463:21,25

G

gained 345:23
game 441:15
Gates 502:15
gauge 495:7
gave 472:13,14 512:17 515:25
general 364:24,25 368:25 369:21
 380:24 381:23 382:10 385:20,21

420:10 438:9 447:13,18 449:15,25
 497:14 514:21 515:1 518:11 529:7
 534:18
generalization 395:17 439:14
generally 369:15 382:24 403:6
 450:4
generated 348:22 443:25 445:1
 492:11 530:4
gets 369:18 515:15
getting 363:2 372:1 422:9 451:14
 521:22 523:17
give 343:14 380:6 389:2 410:13
 427:4 467:20 478:17 493:7 495:6
 515:25 533:25
Given 344:3 345:7 353:23 448:4
 484:9,10 500:17
gives 457:21 490:13 497:23 498:3,
 5
giving 428:4
goal 348:25
goals 524:15,19
gosh 450:2
got 351:24 356:21 389:12 393:9
 448:11 485:16 496:18,19,19 502:
 13
grade 490:11
Great 337:21 425:6 429:24
greater 417:9 420:9 454:10,15
 456:23 457:11,21 498:4,5 519:22
 526:14
gross 395:17 398:25
grounds 499:15
Group 475:15 510:8,9 511:13,17,
 22 512:20 513:6,19 514:8,12 518:
 10,13 521:5,9,19 522:5 525:9,13
 526:2 530:10,10,12 532:5,9,11
 534:5
groups 462:17 509:24 510:7,14
 511:3,8,12 513:13 514:1 524:9
 525:17,21 528:5 530:10,13
growing 348:8
grows 444:7
growth 443:22 444:16,22
guess 397:20 409:10 411:10 419:1
 421:2 423:21,25 438:24 463:5,13
 465:24 520:25 523:16

H

half 344:21
Hamelstrand 448:12
hand 337:10 387:1 414:16 476:9
 489:18 505:20
handed 340:2 341:10 352:10,13
 375:19 448:7 493:21
handling 383:25
handout 504:2
hands 489:20
handwritten 339:19
handy 468:8
happen 344:15 345:1,2
happened 349:9
happens 346:2 396:25
happy 504:23
hard 343:15 344:15 349:13 389:
 17,18 477:20 514:25
head 408:24 458:14
headed 477:13
heading 426:12,20 427:2,20
hear 343:23 369:8 435:7 502:16
 518:23 531:7,9
heard 375:2 522:21 524:24
hearing 337:4 343:20 345:12 346:

13 408:19 432:23 535:1
heartburn 488:11
held 400:24 468:23 503:25
help 358:18 499:23
helpful 357:6 450:13
hereto 402:4
hesitate 418:18 464:4
high 368:23 369:17,17 493:7,8,14,
 16
higher 376:13 382:9 400:12 456:
 21 457:7,17 460:4 462:9 464:4
 469:5 497:15,19,23,24 498:2 502:
 4 503:9 514:23 515:2 516:24 518:
 9 521:19
hired 393:23
hole 531:20
honest 367:23 449:24
Honestly 434:3
Honor 337:17 342:11,20 346:24
 352:10 353:11 358:6,9 362:24 373:
 2 375:11,13,15 376:6 377:25 379:
 3 381:2 384:8,10 386:17 401:4
 414:1,13 415:17,18 422:12 424:2
 435:16,21 436:21 440:13 441:25
 442:5,23 443:3 446:13 447:22 451:
 9 453:5 470:3 478:23 489:22 503:
 20 523:14 532:22 535:3
hope 420:12 436:24 503:14
hopefully 435:3 484:8
Hopfenbeck 379:5,6,12,13 386:
 24 387:7,14 388:4,8 389:7,12,18,
 24 390:8 394:19 400:21 404:9,12
 406:18 407:11,15,23 409:19,24
 411:2 412:15,16,19 413:15
hoping 389:5
host 367:18
However 364:2 418:17 419:15
 440:17 444:6 448:19 461:12 486:
 21 528:25
hundred 409:13 485:8,11,12,13
 486:15 503:17
hypothetical 369:24 370:2,4,5,6
 371:7,20 372:1 382:22,23 383:1,3
 385:16 398:18 399:1 405:19,24
 417:5 418:12 438:24 439:10 471:
 23 472:13,23 519:24 526:18

I

I-n-t-y-r-e 337:15
ID 491:7
idea 463:19
identical 419:8
identification 352:12 375:16 387:
 16
identified 375:20
identify 492:2 494:15 498:11,24
identifying 409:2
ifs 369:20
II 337:4
ILECs 445:12 459:2 471:18,19,20
 475:7
impact 340:16 344:18 345:16,22
 348:5 416:9 519:5
impacts 346:25,25 348:10 349:21
 351:12
implement 422:22 483:4,12 484:
 7
implementation 427:3
implications 523:23
implicit 391:9,21
implicitly 480:9 493:12
implied 351:13 504:18

imply 510:3
implying 456:25
important 444:20 460:20 461:1,6
 516:7,11
improve 462:22
imputed 465:25 531:24 533:12
inaccurate 349:23
inadvertently 340:17
inappropriate 349:8,19 350:19
 471:10
Inc 403:18
incentive 456:1,2,6,12,18 457:21
include 361:15 392:1,12 454:6,10,
 14,15 480:7 489:1 490:14,19 491:
 5,10 507:24,24 530:25
included 359:9 489:6 492:10 532:
 19 534:11
includes 384:18 482:12,14 485:8,
 16 491:16 526:7
including 370:1,10 381:9 427:20
 436:2 474:1 501:14 524:21
incoming 354:17 355:3,19 357:13
incomplete 436:23
incorporate 355:12
incorporating 426:23
incorrect 340:24
increase 346:4 348:23 390:19 417:
 7 419:7 437:25 445:13 447:9 462:
 10 463:3 488:15 496:12 526:20
 527:2,20 530:11,12
increased 351:16 353:8 462:2,22
 527:18
increases 348:18 370:23 446:10
increasing 348:20 496:11 519:10
incremental 385:5,12,21 386:7,9
incumbent 471:24 472:24 474:19
incur 360:25 367:21 530:6
indeed 379:15 383:13 407:8 428:
 15 453:21 454:2 478:22 484:13
 488:13 494:20 503:14 517:19,25
indicate 351:5 357:21 530:18
indicated 346:13 368:6 374:3 405:
 20 425:15 525:9
indicates 401:17 470:11
indicator 513:8
indirect 425:16
individual 459:7 479:17 480:5
indulgence 358:8
Industry 499:1
inertia 406:5
information 340:5 347:9 380:20
 409:16 458:13 464:3 474:6,15 475:
 13 481:13 484:11,11 486:18 523:
 23
inherent 444:24
initials 532:13
inputs 345:3 480:19
ins 439:18
insignificant 478:6
instance 354:10 416:22 417:1 528:
 13
instances 367:4 369:4 456:8
instead 465:19 527:3
insure 460:16
intend 437:12
intentions 344:13,25 345:3
interconnected 373:25
interconnection 459:24
interesting 422:1
interests 418:21
interexchange 343:16 345:24

354:25 359:12 362:9 365:11,20 366:9,18 367:7 368:7 369:6,9 374: 4,8 376:18 378:2 interject 358:14 523:14 interLATA 355:5 359:25 380:10, 22 381:4,6,9 407:1,6,10,21 408:10, 16,19 409:8,17 410:22 529:16 interlude 429:23 internal 364:11 internally 360:4 international 499:16 500:12 501: 25 internet 529:25 interpose 407:11 interpret 429:10 487:16 interpretation 463:5 466:6 467: 10 interpreted 428:8 interrogatories 431:19 interstate 355:4 359:25 377:5,20 378:12,17 380:10 389:11 408:21 453:24 454:24 455:8,11,17,17 456: 22 457:7,11 458:2 468:14 469:4,6, 7 485:18 486:5 499:16 500:11,16 501:21,25 502:2 529:16 intervene 514:25 intervening 524:7 intra 355:5 407:20 intraLATA 345:24 355:8,10,15, 17,22 357:24 360:2 361:7 366:10 367:8 380:12,22 381:7 384:18 385: 5,22 388:18 393:15 399:6 400:7 401:18 402:5 403:16 404:17 405:8, 14 407:2 408:20 409:9,17 410:23 431:10 529:15 intrastate 355:21 378:8 388:18, 23 389:10 399:15 454:23 455:7,11, 16 456:5,21 457:6,18 458:1 459:3 489:2 499:17 500:16 501:18 502:3, 7 529:15 introduce 396:21 398:1 introduced 399:5,14 introduction 501:17 invert 419:9 investment 489:12 involve 464:8 involved 348:4,16 349:7,15 360: 17 367:25 368:24 441:3,6 449:17 486:7,10,13 515:9 516:2 521:2 irrespective 496:17,18 isn't 344:5 345:24 346:2 350:6 351:8,19 354:5,10,24 355:10 361: 7 362:10,14,23 365:6,17 367:2,21 368:15 374:6,8 377:6,14,20 378: 11 384:18 400:6 420:7 427:19 431: 7 434:11 441:11,23 456:22 467:22 471:18 475:7,23 483:23 511:16 514:4 524:8 529:19 issue 389:15 427:21 450:14,25 451:11 455:15 467:19 issued 448:24 449:1,6 issues 349:15 420:25 451:2,3 453: 11 465:6 item 420:3 479:21 items 347:21 531:22,23 itself 359:23 362:13,20 364:12 365:6,8,14 368:17 369:5 371:22 410:13 412:8 444:14 451:1 514:3 532:18 IXC 356:4,10,10,12 357:12,13 381: 13 383:5,6,13 456:25 457:2,10,16	474:22 IXC's 382:24 IXCs 377:12 385:19 400:1,6 455: 15,23 456:9,24 458:24 474:8,16 IXCs' 380:21 458:21 <hr/> J Jim 419:12 439:12,15 505:24 506: 3 joint 392:1,12 454:7,11 JONES 414:1,5,13,21 415:3,12,17 423:21 440:12 442:21,22 443:2,3, 7,16 445:19,20,22 446:13 451:9,19, 20 506:8,20,24 523:14 532:24,25 Judge 337:11 387:2 414:17 451: 24 476:10 505:21 judging 511:24 jump 480:16 jumping 503:1 jurisdiction 455:24 472:9 473:21, 25 474:14,21 475:20,24 jurisdictional 474:15 jurisdictionally 409:2 jurisdictions 455:13,16 474:6 justification 472:21 <hr/> K keep 494:11 501:2 keeping 414:2 kept 515:24 key 344:12 kind 434:19 439:14 443:16 458:13 473:10 496:25 knowing 436:8 knowledge 347:9 456:10 478:21, 22 knowledgeable 486:16,20 523:15 known 392:7 403:21 434:21 441:7 514:7 517:17 534:13 <hr/> L L-a-n-d-u-y-t 452:3 lag 348:4 Lance 414:1,14,20,23 Landuyt 452:3,6,12 453:9 469:1,2, 20 470:7 473:14 475:7 476:8 language 423:25 512:25 large 359:21 360:9,14,18 380:21 405:11 410:3,6,18,21 largely 419:24 507:13 larger 360:13 largest 344:3 Last 337:14 340:14 369:9 387:6 404:14 421:1 429:23 431:3 447:12, 18 448:9,20 449:8 452:2 468:2 476:13 478:14 491:6 503:7 505:24 LATA 409:12 late 393:9 441:15,17 later 379:9 423:19 lateral 526:17 Law 337:11 387:2 414:17 451:24 466:6 476:10 488:12 505:21 533: 20 lawyer 473:15 515:15 lead 342:19 355:3 388:10 407:9 408:9,15 leading 385:16 442:2 481:1 leap 397:2 lease 413:11 leased 402:6,22 403:17 least 341:20 351:5,13 361:11 377: 12 425:3 432:2,6 469:21 494:23 530:25 532:19	leave 349:3 436:12 509:9,15 525: 23 531:15 Leaving 370:20 507:12 left 352:4 418:16,19 529:8 531:25 left-hand 532:8 Legacy 402:6,22,25 legal 453:17 463:5 467:20,21 470: 18 legally 463:16,18 471:15 legislation 470:20 legislature 534:20 length 425:9 less 359:12 360:1 369:5 380:11 395:10 406:16 434:25 460:18 461: 20 494:19 510:25 letter 447:24 448:22,24 letters 499:4 level 372:22 376:13 377:3 395:15 397:16 495:1 525:24 leveling 346:8 levels 394:14 397:12,22,24 405:22 life 515:8 likely 357:21 364:20 366:6 377:19 496:12 497:16 514:22 515:23 521: 22,23 523:12 524:4,9 529:10 limit 488:6 492:16 493:1 512:6,10, 22 limitations 404:22,23 limited 338:20 339:12 360:2 472: 6 491:5 497:22 limiting 513:2,9 Linda 448:12 lines 373:21 380:2,8 382:11 394: 11,17 466:11 496:3,7 509:22 523: 19 532:11 linked 383:12 list 414:6 490:14 534:3 listed 510:19 532:4 534:12 lists 531:22,25 532:5 little 340:4 360:16 379:20 423:13 436:10 440:25 444:10 502:4,13 516:24 local 340:17 354:19,21 355:24 356: 20 357:1,11 361:8,11,14,15,18,20, 23,23 366:12 367:9,20 371:21 374: 21,24 376:23 377:9 383:4 384:17, 19 385:6,22 390:16,16,19,19 416:5, 10,23 418:1 419:13 420:15 427:5, 13 430:25 432:6,7 437:18 438:25 439:11,19 443:17,20 455:4 471:24, 25 472:11 475:20 479:17 483:16 487:18 488:18 490:12 494:2 496: 16 507:23 519:1,6 520:5 526:12, 20 logic 360:11 long 339:3 368:3 372:21 425:8 444:13 490:21 529:14,16 longer 372:24 look 381:24 390:4 398:19 402:1 425:18 434:19 436:13 445:4 468:4 469:4,20 478:9 491:20 493:20 498: 23 519:8 527:8 528:3 529:2,3 530: 3,21,24 532:2 looked 419:4 445:12 481:14 looking 424:8 445:9 447:22 468: 17,18 492:21,23 493:16 528:25 530:20 looks 342:19 loop 371:21 480:7,8,10,12,14 482: 12,14,16 484:15 485:8,11,12,16,17, 18,19,20 486:21,22 487:3,4,15,23	488:24 489:13 491:24 493:2 517: 19 518:1 loops 517:17,17 lose 424:5 loss 436:10 losses 353:6 lot 369:20,20 386:3 409:7 410:17 480:25 481:24,25 482:1 486:14,18 488:11 502:10 504:25 520:8 524: 12 lots 425:9 loud 458:15 loves 502:20 low 368:23 369:18 404:25 405:25 lower 360:14 378:7 382:9 389:11 393:15 395:8,9,15 396:13,14 398: 12,16 406:1 457:12 458:20,21 460: 3,23 462:1 464:8 467:23 472:2,12, 15 473:4 497:17 502:3 516:16 520: 22 523:12 524:8 lowered 339:3 517:3 lowering 395:21 396:10 456:5 459:4 472:20 484:19 lowers 395:13 398:15 lowest 455:25 524:5 LSR 374:23,24 375:7 LSRs 374:21 Lucky 408:25 lunch 413:20 <hr/> M M-c 337:15 made 341:13,18,19,20 345:7 347:4 349:10 350:5 351:1 370:21 393:25 417:23 428:3 434:7 440:3 477:22 518:20 Magic 359:6 main 534:25 maintain 460:20 majority 400:3 486:22 MANIFOLD 339:6 352:7,9 414: 10 435:20,21 436:5,21 437:11 440: 11 448:1 476:15,16,24 478:23 498: 17 499:14 502:18,23,24 503:21,23 504:8,10,13 505:6 525:4,7 532:22 535:3,6 manner 365:18 366:1 368:8,10,18 385:20,21 425:16 many 349:21 357:23 409:13 464:1 480:23 532:14 mapped 482:10,11 March 421:25 422:7 428:23 443: 11 444:15 446:25 margin 341:24 398:20,25 497:25 498:4,5 margins 394:15 397:1,23 405:23 Mark 352:7 375:15 450:11 488:8, 20,22 489:23 492:18,21,24 493:2 494:25 495:7,9 504:15 507:10,15, 19 508:2,5,8,15 510:1,4,7,15 511:5, 7,11,16,20,21 512:8,12,24 513:3, 16,22 514:5,9 521:7,13 533:18,23 534:9 marked 352:11,17 387:16 415:5 477:2 506:11 market 345:16,17,23,24 361:11 396:11,13 401:19 408:23 409:1 496:14,22 marketing 361:3 407:9 408:8 markets 496:17 marking 504:3 markup 460:16 461:12 462:1,4
---	---	---	--

<p>464:5,18 465:10 485:6 markups 461:12 mass 401:19 Master 386:10,13,14 match 339:7 396:19,24 397:25 398:2,5 492:8 matches 339:6 math 409:10 494:20 matter 414:3 435:23 438:9 445:11 521:12,13 matters 337:5 436:22 MCI 403:17,24 404:3 McIntyre 337:6,10,14,18,23 338: 3,22 340:7 342:13,17,24 345:12 352:13 358:14,25 359:1 373:5 374: 12 375:19 379:4,16,25 384:5,14 386:21 466:13 McIntyre's 363:1 458:9 mean 349:14 350:21 366:5 397:15, 19,24 398:3 430:3 453:17,19 457: 15 474:3 481:22 497:6 499:25 503: 15 505:1 510:6 513:23 525:15 533: 24 means 347:25 349:15 371:14 474: 20 490:10 494:14 505:4 532:14 meant 399:20 422:2 450:7,10 485: 9,10 509:10 510:5 530:19 531:10 measure 474:19 measured 525:14,19,23,24 526:5, 12 measuring 411:17 meet 394:14 397:12,22 398:17 405:22 406:11 442:7 466:3 meeting 397:24 meetings 465:5,7 member 464:23 465:1 members 464:25 memory 447:21 449:6 450:11,18 mention 429:22,23 451:10 499:9 mentioned 346:11 396:12 473:20 message 369:19 messy 502:13 methodology 427:25 428:1 482:9 483:24 487:8 mid-point 421:24 422:2 429:4 430:5 431:1 432:10 433:10,14,19 443:19,23 444:1,2 middle 413:1 491:1 531:20 might 343:16 344:19,21,25 345:11 349:2 354:1 358:5 366:3,17 367:3, 5,9,25,25,25 369:15,16 372:9 375: 10,13 386:15 396:10,13,14 405:13 407:18,18 410:1 423:20 436:16 447:20,25 467:15 468:9 501:20 502:3 514:24,25 518:8 520:3 528: 13 529:19,22,25 530:21 531:16 Mike 498:22 mile 469:6 mileage 467:25 468:7 million 344:18,20 350:24 370:1, 11,14,14,17,20,24 371:4,8,9 372:2 416:11,12,20,24 417:3,14,18 418:3 420:5,7 422:25 423:3 426:2,23 438:12,14,15 477:10,10 484:8 494: 14 519:7,12,15 520:7 526:22 527: 16,16,19,20,21,22,23 528:8,11,11, 17,18 mind 351:24 366:13 370:2,25 379: 1 380:13 381:20 383:15 408:5 410: 4 425:18 429:21 minor 340:6</p>	<p>minute 337:7 341:24 360:1,7,10, 15 369:19 380:11,16 382:8 394:24, 25 395:10 398:8,12 405:16 411:6, 14 412:4,9,16 413:7 435:15 443: 17 520:17 526:12 minutes 351:22 353:24 380:21,23 381:24,25 382:3,4,5,17 401:23 410:17 411:18 425:10 444:8,8,9, 17,18 518:23 526:10 mirror 518:5,7,7 mirroring 518:12 mischaracterizes 347:17 misguided 469:9 misreading 397:10 misreporting 456:8,13,18,24 457: 22 misreports 457:10 missing 448:18 mistake 501:21 mistaken 471:9 misunderstood 393:21 model 489:5 492:9,10,12 493:16 moment 358:5 372:25 375:10 378: 19 384:8 400:22 468:20 502:24 503:22 531:13 money 519:25 527:1 month 386:12 399:6 422:2 428:9 429:12 430:8,12,17,19,21 431:8 432:4,12 443:10,15 445:4 446:20, 24 515:19 monthly 426:2,3 469:16,17,19 478:9 525:23 526:7,8,10,11 months 421:3 428:1,5,10,10,17,17 429:2 430:3 441:22 444:25 morning 338:3,4 342:24,25 388: 15,16 most 366:2,2,6 368:10,17,21 369:1 374:6 455:3 492:3 518:11 Mostly 341:23 459:2 mother 502:19 Mother's 444:22 MOU 401:19 402:5 403:16 move 353:11 376:6 377:22 388:4 401:5 414:7 445:16 459:8 478:23 488:3 495:12 498:9 513:18,20 517: 13 518:21 525:9,13,20 moved 513:2 514:4 moving 409:22 454:23 455:1,10 495:16,18,20,22,23,24 496:17 514: 8 MR.REICHMAN 358:23 Ms 341:16 343:20 344:12 359:2,9 360:21 362:2,5 363:9,18 364:10, 19 373:7 378:20,25 379:5,6,11,13 386:24 387:7,14 388:4,8 389:7,12, 18,24 390:8 394:19 400:21 404:9, 12 406:18 407:11,15,23 409:19,24 411:2 412:15,16,19 413:15 452:12 453:9 470:7 473:14 475:7 476:7 MTFs 428:4 much 360:1 378:7 380:11 382:2,6, 9 386:15,21 394:24 410:13 413:16 451:23 476:7 496:15 503:19 505: 13 519:25 523:18,20 534:24 must 392:2 394:15 405:23 531:21 myself 525:18</p>	<p>19,20 452:1,2,2 476:12,13,14 505: 23,24,25 names 532:14 534:15 narrow 407:24 near 343:4 518:13 nearly 478:14 necessarily 345:4 406:12 410:9 435:1 necessary 436:16,18 437:5 461:3 494:25 495:8 520:23 need 344:22 381:3 394:24 395:14 398:16 417:23 421:15,16 432:12 463:5 469:18 500:10 525:19 needed 429:23 needs 352:5 negative 477:8 network 362:7,14,20 364:15 367: 19 368:4,21 369:1 373:9 375:1,3,6 376:14,19 377:13 378:1,4,22 392: 7,16 411:19 453:16 458:7 471:8 networks 366:5 369:3 never 441:15 new 372:14,14 396:21,21 397:25 398:1 427:2 444:23 463:12 498:12 next 386:23 400:20 402:2 405:13 477:13 nice 442:7 Nobody 342:14 Nods 408:24 458:14 non-access 359:11 360:8,8,17,25 361:2 380:16 382:8 384:15 385:18 non-basic 479:15 non-Qwest 356:10,11 non-switched 444:3 non-toll 444:3 non-traffic 360:9 none 349:12 489:4 nonresponsive 439:17 normal 346:9 348:14 445:25 normalization 433:2 Northwest 441:8 notation 426:3 note 347:6 408:1 477:4 500:15 noted 392:11 478:4,4 nothing 406:18 412:14 413:15 442:20 467:12 476:4 503:20 505: 10 516:2 525:1 notice 421:15 435:22 436:7 437:8 535:7 notified 534:11 nowhere 518:13 number 341:25 345:15 349:22 350:13,14,17 354:11 355:4 358:2 360:22 364:13,19,21,23 365:3 370: 3,7,8 378:14 379:1 380:7 389:3,7 402:4 403:16 421:8,10 422:15 424: 13 437:25 441:4 447:25 480:2 481: 8 491:1 493:15,17 498:17 510:20 513:5 514:24 518:19 534:15 numbers 340:16,17,19,22,23 341: 15,16,17 342:2,3 350:15,22 360:13, 13 361:13 365:2 438:20 439:22 469:3 477:8,15,18 484:13 486:23 512:3 numeral 394:8</p>	<p>objected 506:22 objection 347:7 377:24 385:9 407: 12 408:1 414:9 436:6,11,12,20 445:15 466:20 470:22 499:13,14 500:15 502:18 523:15 objections 342:14 353:13,14 376: 8,9 388:6 415:15 453:1,2 478:25 obligated 472:3 obtain 403:1,24 458:13 474:5 529: 2,4 obtaining 457:21 obvious 507:20 obviously 381:8 395:7 404:23 409: 3 442:1 474:23 507:19 520:11 occur 344:23,24 occurred 346:5,7 350:18 447:11 occurring 367:1 October 448:11 offer 342:11 376:23 377:9 407:1,5, 20 409:4 410:17 452:24 497:17,17 499:12 506:20 521:1 529:14 offered 386:11 487:21 502:22 529: 23 offering 410:13,24,25 497:3 offers 497:15 office 366:1 367:10,12 official 350:9,16,18 421:15 435:22 436:7 437:8 535:7 officially 414:7 offset 344:19 353:7 399:15 438:13, 20,20,21 439:4 527:1,22 528:14,16, 18,19,20 once 356:21 367:19,22 376:12 390: 15 503:1 one-time 346:5 ones 427:20 ongoing 422:24 460:9 only 348:6,11 351:7 354:10 356:17 358:20 367:21 370:21 381:9 382: 17 387:23 395:9 397:15 398:16 423:13 425:2 427:21 431:14,17 432:13 436:15 462:16 464:15 474: 20 488:22 500:10 515:8 518:11 521:2 522:8 529:2 ooOoo 337:22 342:21 379:22 384: 11 387:8 388:12 404:10 406:22 412:17 414:22 415:21 437:9 440: 22 443:5 446:16 452:5 453:6 470: 4 473:11 475:4 476:18 479:5 498: 19 503:3 504:11 506:2 507:3 525: 5 533:5 open 413:24 436:12 459:25 operating 377:22 378:13 opinion 351:20 406:2 467:21 470: 14,18,19,19 472:22 511:19 520:13 524:23,24 opinions 473:17 opportunity 440:18 515:3 oppose 466:2 opposed 466:7 467:17 493:12 522: 18 524:10 opposing 419:10 opted 450:8 option 472:12 473:4 523:13 524:4 order 353:21 368:9 374:5,13,25, 25,25 397:20 421:8,8,10,16 422:15 424:13 426:3 430:23 434:8 439:4 440:3 441:12 448:23 449:1,6 450: 17,20,22 451:6,7 457:11 480:14 495:12 503:12 510:10 526:23,24 ordered 373:22 459:1</p>
N			
<p>NAC 461:16,18,22 462:3,23 463:4 464:4 465:16,23 466:18 467:17 NACs 459:17,19 461:13 name 337:13,14,15 387:4,5,6 414:</p>	<p>19,20 452:1,2,2 476:12,13,14 505: 23,24,25 names 532:14 534:15 narrow 407:24 near 343:4 518:13 nearly 478:14 necessarily 345:4 406:12 410:9 435:1 necessary 436:16,18 437:5 461:3 494:25 495:8 520:23 need 344:22 381:3 394:24 395:14 398:16 417:23 421:15,16 432:12 463:5 469:18 500:10 525:19 needed 429:23 needs 352:5 negative 477:8 network 362:7,14,20 364:15 367: 19 368:4,21 369:1 373:9 375:1,3,6 376:14,19 377:13 378:1,4,22 392: 7,16 411:19 453:16 458:7 471:8 networks 366:5 369:3 never 441:15 new 372:14,14 396:21,21 397:25 398:1 427:2 444:23 463:12 498:12 next 386:23 400:20 402:2 405:13 477:13 nice 442:7 Nobody 342:14 Nods 408:24 458:14 non-access 359:11 360:8,8,17,25 361:2 380:16 382:8 384:15 385:18 non-basic 479:15 non-Qwest 356:10,11 non-switched 444:3 non-toll 444:3 non-traffic 360:9 none 349:12 489:4 nonresponsive 439:17 normal 346:9 348:14 445:25 normalization 433:2 Northwest 441:8 notation 426:3 note 347:6 408:1 477:4 500:15 noted 392:11 478:4,4 nothing 406:18 412:14 413:15 442:20 467:12 476:4 503:20 505: 10 516:2 525:1 notice 421:15 435:22 436:7 437:8 535:7 notified 534:11 nowhere 518:13 number 341:25 345:15 349:22 350:13,14,17 354:11 355:4 358:2 360:22 364:13,19,21,23 365:3 370: 3,7,8 378:14 379:1 380:7 389:3,7 402:4 403:16 421:8,10 422:15 424: 13 437:25 441:4 447:25 480:2 481: 8 491:1 493:15,17 498:17 510:20 513:5 514:24 518:19 534:15 numbers 340:16,17,19,22,23 341: 15,16,17 342:2,3 350:15,22 360:13, 13 361:13 365:2 438:20 439:22 469:3 477:8,15,18 484:13 486:23 512:3 numeral 394:8</p>	<p>object 346:19 347:16 351:23 362: 25 365:12 371:12,12 381:3 385:13 401:6 409:19 423:21 436:10 441: 25 442:2 451:9 499:15 500:22 515: 15</p>	

ordering 374:4,10 375:3,5,6	paid 398:23	personal 456:10 473:17	premise 397:8
orders 434:5 450:14 451:1,10 460:17 486:14 522:10	Pamela 476:13,17,19	perspective 438:22	prepared 376:2 533:15,16
OREGON 337:1 362:8 381:4,7,8,10,12,15,17 382:18 393:10 401:19 403:4 404:1 407:3,6 409:6,7,12 419:24 427:5,12 449:16 453:24 456:9 458:21 459:2,24 482:6 486:17 488:12 489:14 490:1 491:11,13 494:9 497:5 516:9 534:20	paper 340:3	Phase 337:4 426:24 432:16,19 433:13,24 434:1 450:5,6 483:5 484:6	presence 365:25 366:19
orient 489:25	paragraph 352:19,24 353:4 390:5 425:17,23 427:4,22	phrases 359:21 428:8	present 435:4 487:25
original 340:11,12 419:2,16 438:6 439:2 527:5	paragraphs 429:16	physical 404:21 410:11	presented 385:14 418:23 432:15 464:22 526:4
originally 341:7 493:3	parameters 490:12	pick 349:1,8	presents 416:1 526:5
originate 381:7,8,16	Pardon 424:17	picking 348:13,15	preserve 440:17
originated 382:18	part 345:8 348:23 361:1 373:17 376:2,17 377:18 391:2,8 405:24 410:18 411:13,14,20,20 418:12,13 421:18,20 424:13,22 425:3 427:23 434:8 435:6 475:23 480:8 482:14 491:23,24 500:9,10 502:1,7 507:11	pinpoint 444:19	presubscription 345:20,23
originates 381:10,11	partially 353:7,7 386:3	pitch 408:19	presumably 448:12
originating 354:7,8,16 355:21,22 356:5,7,19 357:9 383:7,8 402:4 403:16 458:3,3	particular 348:19 372:10 398:6 411:18 419:12 461:21 475:11 481:16,18 533:15	pitches 407:9 408:8	presume 438:2
ORS 466:25 488:5 512:21 533:16 534:2	particularly 355:4	PIU 455:20,24,24 456:19 457:1,2,11 474:21	presumption 377:18
others 443:10 464:24 512:2	parties 348:5 349:22 351:6 436:22 437:4 442:17	PIUs 474:8,16	pretend 370:7,8
Otherwise 431:23 514:5	party 388:6 478:25 490:11 493:23 494:1 506:22 512:19 518:10	place 405:4,25 440:4,8 470:20 520:2 534:19	pretty 377:1 385:8 443:22 462:5 500:23
ought 507:24 511:19,19 520:7	pass 337:19 338:19,21 344:14 355:18 393:13 458:5	places 531:24	prevail 470:11
out 337:20 339:19 340:2 341:10 347:13,14 348:13,15 349:1,3,9,17 361:14 366:23 409:10 423:19 425:2 426:22 427:2 437:21,21 458:15 466:18 469:23 477:19,19,20 483:5,5,10,20 491:19,23,24 492:3 493:21 510:25	passed 339:19 534:20	plan 396:19 405:25 406:1,8 408:18 456:14 459:1	previous 446:5,5,6 458:25
outcome 345:4	past 441:24 442:10 445:12	plans 345:2 395:25 396:14,22 399:22 458:24 469:15	previously 341:17 352:11 392:7 427:20
outgoing 354:16	pay 384:1 461:8 471:5,6	please 337:8,9 347:19 374:15 379:7,9 386:25 387:3 403:15 412:1 413:2 414:15,18 417:11 426:8 431:4 433:12 438:10 440:14 442:4,22 448:4 451:25 458:15 476:9,11 503:24 505:20,22 520:18 524:18	priced 398:12 465:20 511:25
outlined 420:1	paying 381:14 383:23 400:7 457:17 460:12	pledged 393:12	prices 339:3 364:14 373:10 376:14 378:22 388:25 390:23 391:3,3,5,7,18,25 392:1,6,11 393:5 406:4 408:10,16 434:17,25 453:25 454:18 460:23 461:5 462:3 467:23 470:12,14 471:20 472:4 482:4 483:20 484:21 485:2 497:18 517:7,10 518:1 532:1,3 534:4,6,8
outs 439:18	payments 459:6	Plus 345:19,22 459:12,20 465:10 477:8,11 485:6 526:8,12	pricing 345:1 390:7,14 393:4 444:20 460:16 461:4 512:10 518:4,5 519:19
outside 362:25	pays 413:10	point 347:24 348:1,7,11,24 350:20,23 359:16,18 363:14 365:25 366:19 371:7 372:18 375:8 377:2,23 380:1 381:6 395:21 423:19 428:5 432:10 437:3 446:2 451:10 480:21 494:17 501:2 513:4 520:13	primarily 420:4
over 348:4 354:2,5,16,18 355:4,6,19 356:22 357:15 368:23 383:7,11,18 386:13 402:5 403:17 404:16 410:12 411:12,23 425:18 434:20 435:9 438:14 462:4 464:16 477:12,13 480:23 485:1 487:10 494:14 497:4 514:11	PBX 354:14,15,18,19 355:3 357:16	pointed 429:15 437:21,21	principally 353:5
overall 341:23 396:13 398:4,4 420:17	pending 363:25	pointing 469:23	printed 340:4
overcome 406:5	pennies 386:5,5	POP 367:10,11	Prior 427:3,11 428:17 441:6,18 495:6
overlay 435:1	people 349:10,18 409:7,11,13 418:20 524:24	populations 409:14	private 348:17,19,20 349:12 351:17 459:8,11,12,17,20 460:17 461:18,21 462:23 463:3 464:3,17 466:11 467:16 468:11 469:13,14
overstate 445:6	per 341:24 360:1,7,10,14 369:18,19 380:11,16 382:8 394:23,25 395:10 399:6 405:16 411:5 412:4,9 413:7,12 426:3 469:6	portability 510:20	probability 497:24
own 385:22 424:4 474:1 531:16	perceive 455:12	portion 340:13 360:18 368:4 372:19 420:6 431:5 480:14	probably 359:11,20 369:14 389:25 395:19 406:16 409:13 421:2,2,12 432:10 467:19 468:18 493:15 497:23 503:10 517:22 523:11 529:21
P	percent 361:11 455:17 459:13,20,23 460:13,15 461:13,19 462:4 480:10,12 481:11 482:25 485:8,11,12,13,16 486:16,20,21 487:3,23 492:5 503:18 514:11 528:6	posed 382:21 472:19	problem 363:23 389:6,23 455:12 457:15 485:17 496:25 497:2
Pacific 441:8	percentage 361:12 457:17 528:9	position 347:11,12,20,22 350:2,16,18 351:1 418:5 438:3,4,7 439:5	problems 386:2 419:15 456:12,13,18,24 457:22
package 437:2 494:1	percentages 342:1	positive 451:6	proceedings 348:14
page 338:16,22 339:9 340:9,9 343:4,13 352:18,18,20,20,22 363:16,17,17 373:21 376:11 380:1,7 382:11 387:21,22 388:22 389:2,4,5,13 390:9 394:5,6,6,19 401:15,16,21 402:2 403:14 405:20 412:21,22 413:5 422:15 425:17,17 426:12 436:1,2 448:20 468:21 469:1 478:13 479:11 490:3 491:1,1 493:22 494:23 495:25 496:2,4,5 499:4,5 500:4,4 501:5,5,6,15,17 508:21,22 509:22 532:8	Perfect 502:11	possibility 348:3 350:15 404:21 457:20 498:3,5	proceeding 393:5 394:1,15 395:13 397:13 398:7 405:23 421:16 431:10,15,20 441:17 454:10 457:6 470:10 483:2,3,4,6,10 484:6,7 517:3
pages 339:20 341:11 343:2 353:16 358:11 359:7 373:4,7 425:9 428:23 435:22,25 436:1,2,3,7,16,23,24 437:13 498:24 499:11 501:10 532:2 534:3 535:6	perform 425:13	possible 350:22 355:2 365:22 367:5,23,24 368:10 372:7 403:3,5,6,7,12 404:2,15,25 405:1 438:5 463:24 475:12 518:11 526:24 529:19	proceeds 486:8,10
pagination 389:20,23	performance 465:17,23 466:12,19 467:6,12,17	Possibly 366:22 425:15 466:2 521:3	process 345:9 375:3
	performed 380:18	postulated 405:24	produce 486:3,4,5 493:17
	perhaps 344:9 358:15 397:25 409:14 423:18 436:25 475:9 524:2 531:10	potential 496:25	produces 434:23
	period 422:7,8 428:9,25 429:12 430:6,8,12,12,17,19,21,24 431:1,8 432:5,11,12 433:11,15,19 440:2,5,9 441:14,16,19,20,23 442:16 443:10,20,23 444:1,3,11,13,14,14 445:1,5,9 446:2,20,24 462:12 480:23	pounds 410:12	producing 493:8
	periods 444:24	practice 445:25	product 348:15 349:1,8,17 372:12,13,14,23
	Permanent 426:22 427:22	preclude 376:25	productive 379:14
	permissible 363:12 463:16,18	predecessor 442:14 449:9	products 348:16 349:3,7 396:21 401:19
	permits 458:13 473:21	predecessors 447:6,14 449:16	profit 392:13,14 497:25
	permitted 376:19 407:1,5	predict 343:15 344:6,11 345:4,10 349:13,16	profits 392:2
		prefer 445:4 488:2	Program 521:4
		prefiled 414:7 415:4 476:25 506:10	prohibit 377:12
		preliminary 337:5	prohibition 377:8,11 378:1
		remarked 401:1	

prohibits 376:22
 project 435:8
 projected 431:9
 projects 434:13
 properly 511:25
 proportion 390:14 420:9,11 528:11
 proportional 518:14
 proportionate 527:25
 proportionately 528:9
 proposal 341:4 390:7,14 416:2,4,5,10,19,19,22,24 417:2,3,6,21 418:22 419:2,16 430:21 437:18 439:1 454:21 460:19 463:22,23,24 464:17,23 468:13,15 477:9,10 487:16 495:15,19 499:3 501:14 509:9,15 512:10 513:18,21 514:8 516:16,16 517:13 518:4,9,20 519:5,14,16,19 520:1 525:23 526:21,21 527:5 531:17
 proposals 416:15 465:10 520:11
 propose 431:18 454:2 455:1 459:11,19 462:5 464:8 469:13 507:8,12 509:18 513:12
 proposed 340:15 341:4 343:7 350:13 388:23 389:10 417:8,24 418:4,5 432:1,4 437:24 462:17 464:5 467:23 468:8 470:9 487:20 509:1,23 511:3 512:19 513:5 514:1 518:17 525:22 527:14 528:1,1 532:1,3,6,20 533:12
 proposes 417:13,14,17,18 431:8,14,17 462:16 465:2,15,22 468:25 487:14 509:1,4 519:10,12
 proposing 454:13,14 462:8,11 494:11 519:23
 proposition 497:14 514:21 515:2
 proprietary 370:3
 prove 409:10 496:1
 provide 346:23 347:8 365:11,20 376:20 377:15 386:7 400:2,6 406:7 471:8 479:23
 provided 341:15 405:3 479:15 480:1,2,3,3 513:10
 provider 361:8,24 367:18,20 368:19 383:5 406:6 521:4,15,18
 providers 369:3 403:2,25 404:24
 provides 365:14 368:19 369:5 371:21 396:16 401:22 457:25 488:5 490:12 499:5
 providing 356:20 359:11 362:9,13,19,22 364:11,16 366:9 367:17 371:23 377:16 384:16 385:19,19 427:12 481:13
 provision 362:13 365:7 366:3 368:9,16 377:13 391:15 405:14 425:20,25 426:4
 provisioned 368:8,9 373:24 378:2
 provisioning 364:12 365:16 367:7 368:16 410:2
 provisions 426:11
 public 351:20
 PUC 426:3 452:7 506:4 535:1
 punched 531:20
 purchase 354:25 357:21 365:24 369:6,10 374:25 523:9
 purchased 346:3 354:22 382:2 461:18
 purchases 368:20
 purchasing 376:22,25 377:9
 purely 418:16 521:18

purpose 385:15 435:8 474:17 483:3 484:3,3,6 493:3,12 504:16 533:11,16 534:12
 purposes 371:7 374:6 500:10
 pursuant 435:24
 pursue 456:12,18 457:14,22
 pursues 456:23
 put 390:14 414:6 418:14 518:8 526:25
 putting 411:19 527:3,6

Q

qualified 355:8 522:8,14,23,24 523:4,5,6
 qualify 522:12,17
 qualifying 521:6 522:9
 quantified 416:8
 quantity 434:21
 questioning 404:14 407:24 523:16
 questions 342:8 363:8 379:4,6 380:1,13 384:4,15 386:18 387:25 403:20 404:7 415:9 419:14 435:18 437:12,15,16 440:11 441:16 443:8 451:18,20 452:21 468:2 469:25 471:3,4 473:10 476:2 478:17 498:7 502:21 504:15 506:17 508:25 515:15 520:20 526:16,17 528:22 530:8 532:22,25 534:22
 quick 379:7 468:20
 quicker 337:19 423:20
 quiet 501:2
 quite 434:15 462:15 527:7
 quote 386:4 388:24,25 421:22,23 423:4 424:14 467:3,4 488:6,9 512:21
 quotes 530:19
 Qwest's 341:4 344:3 345:16 347:17 352:14 356:19 357:24 360:1 361:7 362:6 364:11 369:22 370:9 374:21 375:20,24 380:12,22 383:14,14 388:17,23 389:10 390:13 395:16 396:17 398:12,17 400:2 403:25 406:1,11 416:5,10,18,22 417:2,6,21 418:1 419:2 435:23 453:4,24 459:12 463:25 481:9 514:23 515:2 516:4 519:5,14,19 533:12
 Qwest's/U.S 480:23

R

Raise 337:10 387:1 414:16 416:23 463:10 464:4 472:25 476:9 494:16 505:19 525:22
 raised 372:17
 raising 417:13,14 484:19 497:1 509:1,4,18,23 511:2 513:12,25 525:22
 range 461:13 527:16
 rapid 450:7
 rare 357:22 441:16
 rated 514:7 515:17 532:5
 Rather 488:22 495:11
 rational 523:8 530:3
 rationales 518:19
 re-orient 424:12
 reach 409:7,8
 react 343:16 344:7
 read 352:19 353:2 413:2 421:1 422:16 424:21,24 425:2,4,4,5,20 431:3,5 479:18 481:12 486:14 512:16 524:25 529:12

readily 359:22
 reading 517:21
 reads 422:22
 real 363:24 364:7 515:8
 really 344:11,14 363:2 375:2 376:21 377:17 386:6 393:17 408:22 409:20 427:24 432:13,21 434:25 439:15 491:20 511:18 521:12,17 523:16
 reason 346:22 377:2 403:7,9 406:3 444:2 458:17 460:15 462:1 491:16 494:13 496:15 507:11 508:11,13 514:17 521:17,18
 reasonable 348:6 377:17 392:2,13,14 419:18 429:10 493:10,15,18
 reasoning 428:3
 reasons 343:14 344:12 373:17 376:25 419:17 455:10
 rebalance 348:2,23,25 349:7
 rebuttal 338:12 341:11,14 342:4,9 343:1 353:17 358:12 363:9 364:24 373:5 376:11 380:3,4 382:13 477:1 494:22 496:1 499:10
 recall 345:18 346:1,12 351:14,17 365:3 368:14 383:16 385:3 410:5 411:8 412:4 421:20,24 432:21,21 433:17 435:11,12 437:19 447:7 450:6 451:12,17 458:12 465:9,11,13,14 475:21 501:21 525:11
 receive 456:23 510:12 521:5,6,9,15 522:11
 received 459:6
 receiving 357:11 374:14
 recently 352:14 517:3
 Recess 379:10 413:23 424:9 442:25 535:11
 recognize 375:24 498:25 500:11
 recollection 423:8 448:8,14,25 502:1
 recommend 376:12 417:8 461:12 463:2
 recommendation 343:5,11 373:8 378:21 388:21 418:7,14 420:13 437:17 439:2,7,9,23 453:21,23 519:20 520:14 523:21
 recommended 351:8,11,15 373:14 460:15 526:25 530:11
 recommending 350:4
 reconvene 534:25
 record 337:3,13 346:10 357:7 374:15 379:11 382:14 387:4 400:21,24 413:25 414:2,8,19 415:14 421:18 422:16 424:7,10,22,23 425:4 435:14 436:4 443:2 452:1,25 468:23 476:12 500:11 503:25 505:23
 records 449:5 474:12
 RECROSS 384:12 406:23 446:17 475:5 533:6
 recurring 340:21,22 341:6
 REDIRECT 379:23 384:14 404:11 407:12,16,17 409:21 412:18 440:15 442:21,23 443:2,6 473:12 504:12 505:6
 reduce 344:19,21 394:13,25 397:1,11,15,21 398:7,20 405:21 406:11 417:2 456:6 494:25 495:8 519:15,16
 reduced 398:24
 reduces 394:23
 reducing 394:15 397:17,23 405:23 417:17,18 507:8 519:25

reduction 350:24 370:17 418:15 420:6,9 422:24 423:3 425:22,24 426:1 427:7,16
 reductions 339:2 343:7 344:14,17 345:8 393:14 419:23 426:5,23 427:22 428:4 458:25 459:5 484:7
 refer 379:1 391:2,25 429:20 449:12 479:10,20 494:22 508:24
 reference 363:14 365:3 392:4 436:17 448:19 491:12 499:9 500:7 501:18 530:17
 referenced 382:10 390:3 391:24 427:22 460:1 465:4 500:3
 references 402:21
 referencing 436:15 451:1
 referred 400:10 402:15 427:20 455:20 457:25 494:5
 referred/deferred 526:17
 referring 380:15 390:18 391:6,8 394:11 395:11,25 396:1,3 410:6 446:25 448:10 449:8,19 460:6 466:24 467:24 481:19,20 512:1 533:8
 refers 492:23,24 499:4,16 500:15
 reflect 434:6 435:14 449:5 459:5
 reflected 341:21
 reflects 401:18 423:11
 reform 353:7
 refresh 447:21 448:8,14,25
 refund 425:22
 regard 348:15 396:20 513:3
 regarding 437:18 440:2 443:8 519:19 526:16,18 530:9
 regardless 411:24
 region 493:14
 registered 388:6 453:1,2 478:25
 regulated 467:3
 regulation 450:9 472:25
 Reichman's 389:22 470:25
 relate 427:21 459:17
 related 359:11 360:19 361:5 362:3,6 371:22 384:15 398:24 447:24 524:1
 relating 380:1 451:2,3
 relationship 460:21 471:4 508:9,10,12,13,19
 relative 382:1 385:18 395:2
 relatively 349:18
 Relevance 377:24 436:9,12
 relied 341:14
 rely 391:15 474:10 521:25
 relying 426:11
 remain 390:15 474:23 528:12
 remaining 399:2
 remember 364:18,21 434:3,4 447:16 450:3 459:4 473:22 483:3 495:3 500:6
 remote 367:18
 remove 455:11
 removed 489:9,11,11 491:22
 removing 459:3
 reopen 443:1
 repeat 408:6 421:10 438:10 516:10 524:18
 rephrase 347:18 362:16 365:15 442:3,8
 replaced 478:13
 replicate 405:2
 report 455:23 474:8,16 501:13
 reporter 431:5 458:15 480:17
 reporting 456:12
 reports 457:1,11

represent 500:9
 represented 401:6
 represents 491:20
 repress 349:7
 repressed 348:10
 repression 348:21 349:11 351:9,
 15 445:14 446:6,8 447:9
 request 365:23 374:16,18,21 375:
 21,25 382:16 401:18 436:17 512:
 14,17 513:5
 requested 431:5
 requests 415:12 439:19
 require 466:12 488:15
 required 453:15,17,20 460:18
 471:15 534:16
 requirement 388:24 391:6 420:
 24 434:8 449:21 450:5,10,15 451:
 2
 requirements 390:23 461:3 512:
 21
 requires 391:3,5 392:10 423:3
 resale 460:17 461:18 471:5,10
 521:25 522:18 523:3,10 524:5,17,
 22
 reseller 522:12
 reserved 503:2
 resided 390:15
 residence 488:18
 resold 522:5
 respect 343:6,16 416:15 417:1,6
 419:17 420:17 425:14 439:13 443:
 17 444:5,9,20 445:2,5 449:23 459:
 11 516:15 519:6,14
 respectively 509:25 511:4
 respond 373:7 389:10
 responded 410:2 530:9
 responding 339:1 346:20 390:13
 504:16
 response 351:5 375:20,24 401:23
 402:21 407:19 431:9 447:3 475:17
 500:2 513:5
 responses 401:11 478:17
 responsive 445:16
 rest 531:25
 restate 381:20 417:11 445:20 457:
 3
 restricted 484:9
 restricting 525:18
 restrictive 385:24
 result 339:3 341:17,22 344:1,5,15
 390:11,22 394:14 397:12 405:22
 438:4 458:21 460:22 463:24 526:
 24 527:5,20
 resulted 342:1 460:9
 resulting 431:10 433:16
 results 349:21 483:18 526:6
 resume 429:25
 retail 392:18,20,25 461:7 462:9,23
 463:3,25 464:8 467:3 471:5,17,25
 472:4,25 484:22 485:3 490:10 496:
 20,20 518:4
 retain 406:13
 revenue 340:14,16,19 341:3,4,5
 343:7 344:24 347:23 348:2,12,23,
 25 349:7 350:11 371:9 372:12 394:
 23,25 416:9 418:14 420:9,24 422:
 24 423:3 426:23 430:24 433:2 434:
 8,13 435:9 440:4 443:13,14 449:
 21 450:5,10,11,15 451:2 457:16,21
 483:4,12 485:23 489:2 491:12 494:
 14 511:20 519:5,11 526:2,8 528:

10 529:2,3
 revenues 340:15,15 348:7,22 353:
 5 369:25 370:1,10,13,20 371:2
 417:2,7 422:3,4 432:16 433:10,14,
 25 434:20,23 435:1,2,2 443:25
 445:1,6,8 456:23 477:9 485:25
 486:1,3,4,5 488:23 492:6,8 493:1
 519:15,16 528:4 530:4
 review 418:20 425:7 458:9 487:19
 reviewed 425:10 487:22
 reviewing 448:24
 right-hand 352:23
 ring 421:7 432:24
 roles 504:3
 Roman 394:8
 room 343:20 345:12 529:8 535:1
 rough 361:10 382:5
 roughly 396:24 397:25 398:1,5
 route 354:16 357:5
 routed 354:18 355:18 356:22 357:
 15 366:16,18 368:23 383:18
 Rule 435:24 489:15 490:2 491:13
 493:21
 ruled 505:1
 rules 522:9
 run 366:8 471:23
 running 531:22
 runs 421:25

S

s's 477:25
 S-t-a-n-a-g-e 505:25
 SALEM 337:1
 same 340:4,5 341:7 347:1 355:6,
 19 362:14 366:4,5 368:15 374:18
 388:2 389:7,20 393:16 395:15 401:
 16 403:20 415:9,10,11 420:11 425:
 16 428:25,25 438:24 452:18,21,22
 453:15 454:3 464:21 467:24 469:3
 471:7 472:2 480:12 485:12,13,19
 490:23 494:5 497:20,21,23 502:5,
 19 503:15 506:17,18 511:13 512:
 16,18 513:25 515:25 517:6,14 518:
 6 521:8,15 522:6,22,23 523:1 525:
 24 528:6,9,12 530:6 532:7
 save 451:16
 savings 338:19,21 343:25
 saw 421:1 423:13
 saying 359:20 390:4 394:17 396:
 20,25 397:7,20 426:22 427:2 428:
 7 443:17 495:5 505:3 510:23
 says 338:18 340:21,22 353:9,9 385:
 9,14 387:22 391:9 394:12 397:10,
 11 402:24 420:3 422:17 424:19
 425:20,21,25 426:4 427:1 467:10
 478:6,10,10 489:5 491:4 492:15
 493:24 495:6 500:12 508:18 512:5
 scenario 359:2 367:22 383:15
 scope 362:25 407:16 409:20
 Scott 337:14,23
 scrutinized 480:20,23 482:3
 seasonal 429:13
 seasonality 429:8 432:14 444:19,
 21,24 446:21
 seat 429:25
 seated 337:12 387:3 414:18 451:
 25 476:11 505:22
 second 338:17 390:5 412:21,22
 417:1 425:25 426:8 474:25 475:23
 477:24 491:1 493:21 499:4 532:8
 secondly 535:6
 section 353:19 387:22 391:6,13,18

392:6 393:3 394:8
 sections 528:3
 see 343:8 345:10 348:17,22 373:12
 374:1 375:22 385:15 390:12 394:
 16,21 403:15 420:4 444:16 448:19
 450:4 451:16,16 461:6 465:19 472:
 20 477:21 481:16 490:4 491:2 493:
 24 494:3,13 496:9 501:19 510:17
 513:4 527:7 528:2,4 532:9,11
 seek 439:14 488:6 492:16,25 512:
 6,10,22 529:13
 seem 349:4,24 377:19 419:17 451:
 11 523:17 529:10
 seemed 518:19 530:18
 seemingly 349:14
 seems 348:13,15 349:6,8,18 358:
 14 377:1 439:17 451:13 523:15
 seen 338:18,20 352:15 357:23 358:
 1 401:13 483:13,18,19,20,22 484:
 13 496:16,21 499:7
 segment 396:11
 self 410:1
 self-provision 403:10 404:3,16
 self-provisioning 404:19 405:7,9
 410:20
 self-report 455:15
 self-reported 474:21
 sell 524:14 529:5,10,13,17,20,22,
 25 530:5
 Selwyn 341:15,20 351:8,11 500:6
 Selwyn's 343:5 360:6
 semantics 441:1
 semi-colon 422:20
 Senate 512:4 530:17
 send 386:14
 sends 361:14
 sense 440:7 494:17 513:25 518:12
 534:1
 sensitive 360:9,12
 sentence 338:17 339:14 394:12
 412:25 413:2 424:22,22 478:3
 separate 361:18 384:24 450:14,17
 451:1 485:25
 separately 479:20 494:1
 September 401:24
 serve 389:18 400:15 521:24 522:4,
 6 523:2,7
 served 389:24 411:23 413:12 521:
 10
 serves 383:22 411:11 413:7 450:
 11,18
 serving 367:9 528:25
 set 362:7 373:9 377:2 383:1 388:
 18 392:6,16,18,25 393:4 394:14
 397:12,22 405:22 412:3 417:13
 426:7 427:6 437:16 440:16 441:12,
 19 453:15,22,23 454:1,9,17 455:2
 468:2 471:3 474:8 475:20,24 478:
 9 484:4,7 490:7 515:17,18 516:8
 517:25 518:25
 sets 457:5
 setting 393:5 420:24 442:12 459:
 11,19 464:2 487:8
 seven 421:3
 several 421:1 436:15 467:16 501:
 13 510:25 521:14
 shall 426:6,7,24 488:6 492:16,25
 512:6
 share 345:16,23 485:19
 shared 482:25
 sharing 450:11

shift 346:6
 shifted 372:11
 shock 462:2
 shop 502:12
 short 442:22 444:10
 shorter 358:10
 shoulder 425:18
 shouldn't 484:4 510:24
 show 346:11 351:24 407:19 422:
 14 447:20
 showed 424:12
 showing 487:25
 shown 500:5
 shows 341:3 402:4 526:10 527:13
 528:2
 side 531:23 532:8
 Signaling 457:24
 significant 347:13 350:13 478:6
 significantly 368:22 462:2 468:5
 similar 346:17,18 367:17 386:16
 396:19 399:14 437:25 438:4 454:3
 468:12 469:21,21 510:18 527:5,5
 simple 375:6 480:15 510:24 516:2
 simply 347:3 406:11 513:2 530:21
 532:17
 since 344:20 346:6 350:12 359:24
 368:3 380:9 421:16 436:15 438:14
 449:14
 single 483:1 490:10 494:1 495:1,9
 sir 479:12 484:25 489:21 491:14
 497:11 498:25 501:8 504:23
 sit 463:15 517:9
 sitting 375:4
 situation 411:11 444:16 472:13
 situations 365:7
 six 428:10,10,17,17 534:3
 size 410:9,10,11,12 493:4 504:16
 slightly 358:14 481:15 497:24
 518:9
 Sloan 414:5
 small 358:4 385:12 400:3,9 426:
 12
 smaller 360:13,15 475:8
 sold 493:25
 sole 474:14
 solely 474:10 520:3
 soliciting 408:13
 solve 497:1
 somebody 493:8
 someone 520:13
 sometime 449:4
 sometimes 365:17 368:1,2
 somewhat 344:6,8 358:10 374:22
 462:8
 somewhere 461:15
 sophisticated 374:9
 sorry 352:21 355:7,13,22 362:16
 363:4 369:8 377:22 378:19 380:6
 389:1,4,25 393:21 402:13 411:4
 413:4 432:22 435:13 437:23 445:
 20 464:16 468:1 470:16 478:10
 481:5 484:25 490:17,20 495:4,4
 496:5 497:2 498:14 501:23 502:25
 515:14 516:10 523:4 524:18 525:
 18 531:5,8
 sort 381:14 411:17 418:24 419:5
 425:14 466:20 524:13
 sorts 433:7
 sound 421:8
 sounds 364:20 377:17 399:3 421:
 13 432:25,25 519:9

<p>source 474:15 speaking 518:22 special 353:20,24 354:7,11 355:25 357:12,17,21,25 382:25 383:4,12, 18,22 400:16 402:15 403:1,21 405: 15 410:2,20 411:4,12,23 412:7 413:11 specific 342:3 359:17 365:2 368:4 375:8 395:21 438:11 465:9 500:24 534:4 specifically 346:20 351:14 354: 18 359:19 363:6 364:18,21 365:2, 3 376:22 378:25 383:16 402:21 425:13 458:23,25 467:24 493:21 519:10 spell 337:13 387:3 414:19 452:1 476:12 505:23 spelled 337:15 476:14 505:25 split 438:14 527:15 sponsor 415:4 506:10 sponsored 452:12 spread 416:2,3 418:21 520:4 squeeze 359:2,8 362:5,18 363:9, 18 365:1 SS7 457:25 458:5,12 473:20,24 474:3,5,11,14,20 475:8,16 Staff's 413:25 414:5 416:1,4,10,19, 24 417:3 418:1 423:8 428:3 430:7, 20 439:23 452:12,24 467:23 487: 16 519:5,16 520:11 stage 417:13 441:15 Stange 419:13,14,20 420:14 439: 12,16,18 487:17 505:16,24 506:3,9, 10,24 507:6 520:21 533:8 534:24 Stange's 487:22 stand 337:9 372:15,18,19,21 393: 12 414:14,15 444:25 476:17 standard 372:16 standards 393:4 Starr 341:16 343:21 359:2,9 360: 21 362:5 364:10,19 Starr's 344:12 362:2 363:9,18 373:7 378:20,25 start 337:17 413:21 426:22 464: 16 485:1 487:10 505:17 Starting 343:4 359:7 363:16 371: 7 373:21 397:9 402:2 403:14 413: 3,4 432:10 477:11 479:13 494:24 531:21 starts 390:8 394:20 427:2 464:17 469:16,19 490:2 501:5 state 337:13 353:3 357:18 359:24 362:7 373:22 382:18 387:3 388:22 394:5 399:5,7 400:1 407:2 414:19 417:12 449:16 452:1 456:11 466:5 471:18 476:11 488:18 496:7 505: 23 509:22 524:24 stated 343:10 353:4 360:21 380:9 424:14 452:19 504:18 statement 345:17 369:21 382:10 488:10 statements 381:23 states 399:14 401:20,22 402:3 403: 15 409:8,11 490:9 533:22 statistics 357:23 358:1 statute 473:18 488:14 492:15,22, 23 507:22 512:3,25 513:11 530:17 statutes 511:25 512:1 statutory 491:11 stay 394:25 395:9,14 396:25 397:7, 21 406:6 462:9 463:4</p>	<p>stayed 372:21 stick 379:1 still 345:4 350:18 354:25 355:11 357:2 372:1 407:23 438:6 455:5,7 466:20 472:9 475:19 488:14 492:3 510:21 512:18 516:24 stimulate 348:13 349:1,6 351:21 stimulated 344:10 stimulation 343:6,14 344:21,22, 23 345:10,11 346:21,22 347:10,13, 23 348:10 349:2,4,11 350:5,8,13, 14,19,22 351:2,7,9,12 371:4 431: 11,16,17,18 432:3,8,10 434:11,16, 24 435:8 441:24 442:10 445:13 446:8 447:5,8 449:9,13 stipulation 420:23 421:5,21 422: 10 423:2,9,10,12,15,23 424:8,13 425:7,8,12 429:20 stop 356:23 426:8 481:6 stream 530:4 strike 445:16 502:6 stripped 458:8 strong 344:20 strongly 512:25 structure 439:19 456:3 studied 349:11,18 studies 347:10 349:9 360:4 432:3 472:21 474:13 480:25 481:2 483:6, 13 study 346:25 347:4 349:23,24,24 380:19,20 480:17,19 481:2 498:25 499:5,7 500:9 Subject 420:12 447:17 471:24 499:17 517:23 518:16 522:2 Submission 435:24 submit 407:23 submitted 533:20 subscribe 427:5 subscriber 510:14 526:13 531:3,4, 5,11,11 532:13,15,19 534:13 subscribing 354:19 subsection 490:7 subsequent 451:2 subsequently 341:20 subsidiaries 402:6,22 403:1 subsides 391:1,9,16,21 subsidize 493:13 subsidy 371:10,13,21 372:2,8,9,16, 20,24 390:15 substantial 376:25 substitute 340:3 341:1,7 subtotal 478:10 sufficient 406:12 495:11 suggest 344:9 382:7 413:20 436: 21,25 suggested 406:11 suggesting 351:6 suggestion 378:3 suggests 344:11 382:6 512:25 sum 460:18 465:22 488:23 493:1 summarizes 531:18 summary 416:1 446:22 supplement 436:16 437:4 supplied 346:10,14 supply 346:16 436:3 support 429:16 473:6 489:3 493: 19 510:12 supported 488:24 493:2 531:1 supporting 531:18 suppose 365:22 377:19 417:5,5,20 457:10,23 460:4 462:21 475:10</p>	<p>519:18 523:11 524:12 529:21,24 530:7 supposed 347:23 350:20 surcharge 399:5 surmise 385:18 surprise 497:10 surround 429:2 430:3 surrounds 429:12 switch 355:18 356:19,21 383:14 switching 340:17 362:21 367:1,7, 22 370:23 390:16,19 455:4 sworn 337:11,25 387:2,11 414:17, 25 451:24 452:8 476:10,21 505:21 506:5 synonymous 402:15 synthesis 491:18 system 474:8 497:4 Systems 457:24 475:8</p> <hr/> <p style="text-align: center;">T</p> <hr/> <p>T-i-r-r-o 387:6 T-S-L-R-I-C 480:18 table 477:6 478:8 522:25 531:23 talked 350:15,21 426:16 talks 364:24 425:23 500:11 tandem 362:21 366:16,21 367:1,6, 11,12,22,25 368:2 458:8 tapes 474:11 target 348:12 395:18 tariffed 466:7 467:10 479:20 team 418:18 Teitzel 341:19 350:8 428:22 Teitzel's 518:18 telecommunications 488:7 telecommunications 373:24 467: 3,7 490:10 492:17 512:7,23 524: 16,20,20 telephone 441:18 488:8 490:6,9, 18 491:5 492:17 493:25 497:3 512: 8,23 529:7 534:2 tells 360:11 temporarily 377:12 Temporary 425:21,25 426:3,5 427:4,7,12,16,21 ten 413:19 425:10 tend 360:8,11 tender 452:25 tendering 479:2 tends 348:3 443:22 term 392:3 396:9 402:9,19 429:10 430:2 437:23 479:20 489:15 507: 22,23 terminate 366:23 381:7,8,16 486: 6 terminated 382:18 383:11 475:13 terminates 381:10,11 terminating 354:9,12,24 355:1, 11,19 356:9,17 383:12,19,22 384:2 402:4 403:16 terms 371:19 386:5 423:1 424:24 425:11,12 427:8,19 464:21 territory 357:24 361:7 403:4 404: 1 test 421:25 430:6 431:1 432:4,4,11, 16,20 433:2 440:2,5,8 441:12,14, 16,19,20,23 442:16 443:20,23 444: 1,2,13,14 445:1 449:6 465:16 testified 343:21 345:13,15 363:1, 3,4 388:17 423:22 435:5,7 458:12 473:3,15 488:14 testify 337:25 375:4 385:17 387: 11 406:2 414:25 452:8 466:13 476:</p>	<p>21 506:5 508:17 testing 465:19 Thanks 406:19 Thanksgiving 444:22 themselves 451:11 theoretically 348:22 367:23 theory 345:9 there's 359:17 361:18 363:24 369: 20,20 378:14 384:24 394:9 395:22 396:7 409:11 417:23 420:3 430:10, 10 434:21 444:21 495:21 521:17 534:15 therefore 384:1 484:17 491:19 492:6 521:17 Thereupon 337:24 387:10 414:24 452:7 476:20 506:4 they've 482:19,20 532:19 third 337:4 352:18 426:4 thoroughly 480:20 though 419:11 464:7,7 486:14 494:20,20 516:25 518:9 531:16 three 340:14 461:25 462:14,14 509:7 517:6,7,10,10 throughout 429:6 thrown 504:25 THURSDAY 337:1 TLRIC 493:16 today 340:25 374:3 375:4 388:2 409:4 415:10 449:17 452:18,21 460:12 463:15 478:18 496:14 506: 17 511:7,13,17 516:4 517:9 518: 22 535:10 toll-interstate 501:18 Tom 448:12 500:7 tomorrow 505:18 534:25 535:4 tone-dialing 490:12 took 424:12 425:6 491:23,24 532: 3 top 343:13 352:18 363:17 428:22 topic 346:21 407:12 419:23 459:9 518:21 total 340:21,22 341:6 371:2,8 382: 6 401:18 403:15 411:21 438:20 485:15 491:21 526:7 528:10,19 530:4 532:9 totally 478:15 481:14 totals 340:20,20 526:13 touch 407:12 toward 346:8 510:15 532:9 towards 346:6 454:24 455:11 514: 9 track 468:19 trade 418:24 traditionally 447:4 traf 366:15 traffic 354:2,4,16,17,24 355:3,5,5, 9,11,11,17,23 356:18 357:15 359: 25 360:2,12 368:1,1,22,24 369:2, 17 380:11,12 382:7 383:9 405:8 410:7,13 444:22 455:16 474:13,18, 19 transcript 435:23,25 436:1 535:7 transferred 458:7,8 transition 462:12,12,14,16 transmission 490:11 transport 362:21 370:23 390:16, 19 467:25 468:6,25 469:5,22 travel 405:16 trend 346:11 trending 346:9 tries 369:1</p>
---	--	---	---

Trincher's 382:16 447:3
trouble 486:18
true 342:9 344:5 346:2 351:8,19
354:6,10,24 355:10,16 360:5 361:
7 362:10 365:7,17 367:21 368:15
369:15,16,16 377:20 378:11 383:
17,21 400:6 402:17,25 403:10,24
406:25 418:17 419:7 427:19,24
428:13 431:7 434:3,11 438:16 441:
23 447:12 456:22 464:1,15 466:14
467:22 471:17,18 475:7,24 478:20
486:20 522:13 524:8
trunk 357:16 367:10 467:25 468:6,
25
trunking 354:19 369:18
truth 485:15 496:22
try 366:8 368:7,20 381:25 389:2,
16 390:1 396:18,19 414:2 442:8
445:20 468:19 497:17 516:8,12
529:10,17
trying 347:3 363:21 398:3 423:22
447:16,24 483:1,12 486:18 500:5
502:12 513:24 523:22 524:13,13
TSLRIC 480:3,17,19 481:2,4,8,13,
16,18 485:7,8,15
TSLRICs 485:6
tune 420:5
turn 343:1 352:17 353:16 358:25
369:22 373:4 401:15,21 403:13
412:20 490:25 532:7
turned 466:18
Turner 435:4,14 447:23 448:12
500:7
Turning 343:13
twenty-five 399:6
Twenty-two 441:5
twice 367:1,7 519:25
two 347:21 359:7 369:9 395:3,19
419:5 423:17 439:25 455:12 461:
24 462:14 465:20 477:7,15,16,25
498:24 501:10 509:5,19,24 511:4
514:2 515:9 526:16 531:22,22 535:
3
two-page 498:15,23
two-thirds 490:3
type 360:24 381:23 382:9 396:19
406:8
types 357:20 360:16 405:5
typical 441:11
typically 347:25 362:8 364:16
366:15,20 402:17 405:7,18,18 433:
6
typo 477:23

U

U.S. 420:18 421:22 422:17,22,25
424:15 427:4 428:8 429:11 430:2
433:10,14,25 441:7 447:5,13,18,19
448:12 449:9,15 450:8
ultimate 520:12
unable 489:8,10
unbundled 362:7,14,20 364:15,20
373:9 375:1,3,6 376:14,19,23 377:
9,13 378:1,4,22 392:7,16 453:16
471:8
uncertainty 530:18
unchanged 398:25 507:13 509:16
Under 340:12,16 341:4 377:11
398:18 426:11 456:2,15 457:17
470:19 471:5 472:24 477:9,12 478:
9 491:10,11,13 495:12,19 510:10
511:25 512:1 518:4 521:3,23 522:

9,14 533:16,20
underlying 479:16,24 480:14 484:
15 486:2 491:17 503:12
underneath 477:16
underprice 406:9
understand 347:3 356:16 362:2
363:23 373:23 382:22 383:1,3 392:
4 395:12 398:3 402:9,14,19 411:
10 430:1,1 434:20 440:1 456:17
481:4 487:1 520:10,11 527:24 529:
12
understanding 350:9 364:5,17
374:23 384:21 393:25 394:2 399:
19 411:12,16,22 422:10 423:8,9
437:7 461:10,11 466:22 471:13,14
474:18 475:22 494:7 504:6 522:4,
8 534:18
understate 445:3,6
understating 444:25
understood 392:2
UNE 364:14 377:5 388:19 391:7
392:11 453:22 454:15 459:12 461:
20 462:23 464:9 470:12 471:12
472:2,4,9,11,12 473:4 475:20 481:
1,14 482:16 517:17 518:1 521:8
528:24
UNEs 460:18 481:10 520:25 521:
24 522:4,18 523:2,9 524:5 528:23
unfair 348:15 439:20
unfortunately 496:14,23
United 409:8,11
units 348:1 420:19 421:22 423:1,5
424:15 425:14 428:9,16 429:11
430:3,8,11,17,21 434:12 443:9,14
Universal 492:13 493:5,13 504:
16,24 507:9 508:1,4,7 510:1,4,11,
12 511:5 513:16 517:2 521:3,5,11,
16 522:7,10,11,15 523:1 531:2,2
534:8
unless 376:23 377:9 385:16 480:7
485:21
unlikely 349:25 520:24
unquote 512:24
until 436:12
up 344:22 350:25 351:4 378:5,22
379:18 384:6 386:19 391:14 394:
11,18 406:20 412:3 413:24 418:16,
19 430:23 434:17,25 440:20 441:
16 443:24 446:5,14 459:7 472:15
474:8 475:2 476:5 481:1 484:8
503:7 505:7 519:1,8 520:3 522:3
527:4 528:17 533:2,3,4 534:23
upwards 418:2
usage 344:10 455:17,23 489:11,12
491:23 526:8,11 527:15
USC 387:22
user 356:21 357:16 366:23 367:13,
20,20
users 367:19 413:12
uses 357:13 364:16 411:4 430:24
446:20 485:18,19 507:22 522:4
USF 504:16
using 343:14 354:6 362:14 365:8
375:5,6 377:12 406:15 413:7 425:
14 428:25 435:8 443:23 444:1,2
446:2 477:21 483:10 484:9 487:14
513:24 526:6 534:1
UT 337:4 392:15 421:18 426:24
447:16,17,24 448:16,17,17,19,20
449:2,3,10,11,11,20,23,24,25 450:
1,2,4,6,6,12,14,18,20,23 451:1,4

utility 488:7 492:17 512:7,11,23
utility's 441:19
utilized 432:19

V

V-a-n 452:3
value 345:11 398:4,4
Van 452:3,6,12 453:9 469:1,2,20
470:7 473:14 475:7 476:7
variety 348:1,7 365:23
vary 366:6 368:21
verbally 429:22
version 339:8 340:3 358:15,21
359:1 389:6,25 477:19,19,21 494:
23
versions 338:25
versus 396:3 523:9 528:15,23,24
530:10
view 366:2 406:12 435:1 440:7
494:18 513:4
views 434:16
vigorously 456:12,18,23
voice 490:11
volume 360:14 368:24 369:17 381:
23 382:9 400:12 409:17 410:7,21,
22 457:11
volumes 360:9 368:22 369:16 382:
1 431:8,15 432:4 434:12

W

waiting 491:7
waive 386:12
wanted 354:4 386:12 451:15 453:
11 471:2 503:22
wanting 406:6
wants 395:14
way 348:6,11 350:24 355:23 356:
17 365:19 377:7 386:10 405:14
417:12 433:22 434:16,17 439:1
441:9 455:1 464:21 474:20 484:9
490:3 493:11 494:25 495:9 502:19
518:18 520:14 522:22 523:7
ways 365:23 423:17
weigh 410:12
weightings 459:3
WEIRICH 352:20 379:17 389:22
442:7 452:4,11,24 464:10 465:12
473:9,10,13 474:25 476:5,6 498:8,
9,14,21,22 499:12,20 500:1,3,17,
19,20,23 501:1,4 502:21 504:6,7
505:9,10,17
Welcome 393:10 489:22
West 422:17,22 427:4 441:7 447:
13,18,19 448:13 449:9,15 450:8
West's 420:18 421:22 422:25 423:
4 424:15 428:8 429:11 430:2 433:
10,14,25 480:23
West/ 447:5
whatever 386:5 483:8 507:24 512:
2 521:7 529:8
wherein 343:24 441:18
whether 343:17,24 345:2 347:3
350:16 351:15 360:5 364:19,22,22
372:12,16 376:18 385:21 386:6,8
399:13 404:15 412:3,8 419:1,9
434:24 439:22 448:25 455:16 458:
1,6 461:15 463:6,7,16 473:24 481:
12 484:16,18 493:25 496:18,18,19
497:25 503:8 511:24 514:5 519:21
520:14 521:14,22 522:13,17 523:
23 524:3,5 528:7
whichever 521:9

who's 357:6
whole 345:8 409:11 480:7 502:12
520:4
wholesale 392:20,21,21,22,25 460:
1,22 461:4,7 518:5 528:23,24
whom 405:6 410:1 471:20 503:2
width 369:17
Will 339:2 349:22 360:1 365:6,7,
17 368:2,20 380:11 395:14 407:23
412:2 421:17 425:22 426:1,2 427:
4 435:2,2,14 436:3 442:8 443:25
449:5 455:23 456:6 457:1 460:2,
21 462:13,13 470:15,20 472:9 477:
16,21 484:8 500:14 501:2 524:10
willing 393:16
wire 461:24,24 510:8,9,10,11 521:
9,19 531:1
wireless 529:22
wish 338:14 339:17 438:3 450:2
496:23
withdraw 464:12 487:10,12
within 367:19 370:23 422:23 436:
23 440:8 444:14 469:6
without 400:7 444:23 472:15,20
475:13 513:3
witnesses 440:21
wonder 419:9
wondering 389:21 419:4
word 338:17 339:11 359:21 389:
24,25 408:19 425:5,5 477:24,24
478:1,2,4,6,13 502:11,12,17 504:
24,25 530:19
wording 357:19
words 356:11 369:9 485:25 495:3
521:12 527:3 532:18
work 434:17 457:2 474:7 510:25
working 338:25
WorldCom 342:18 386:23,24
387:10,16 388:4 393:16,18,23,25
394:24 395:14,14 396:10,13,18,23
398:10,16,23 399:13,17,21 400:15
401:5,22 402:22,25 403:10 404:15,
18 405:1,6,14,25 406:3,10,15 407:
1,8,20 408:7,13 409:3 410:1,16,20,
21 411:4,11,19,23 413:1,4,6,10,11
WorldCom's 395:7 398:20,25
400:18 401:11,19,23 402:6 409:17
worth 372:2

Y

year 419:12 421:25 429:6 430:6
431:1 432:11,16,20 433:3 434:12,
13 435:9 441:12,19 442:16 445:23
447:16 462:14
years 349:10,11 441:4,5 444:23
469:15 480:24
yellow 340:3
yesterday 343:20 345:13 352:3
360:21 393:8,9,12 399:4,8 435:4
500:5
yesterday's 346:13
yourself 352:19

Z

Zone 509:2,5,7,16,19,19 516:18,21,
22,24 517:19 518:1,1,2
zones 461:25 516:18 517:7,11,14
518:6 520:22

1
2
3
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APPEARANCES

Ms. Ruth Crowley, Administrative Law Judge;
Mr. Brooks Harlow, NWPA and ATG;
Mr. Jason Jones, PUC Staff;
Ms. Lisa Rackner, WorldCom;
Mr. Lawrence Reichman, Qwest;
Mr. Mike Weirich, PUC Staff.

--ooOoo--

1 I N D E X

2 Proceedings held May 29, 2001 ----- 1

3 Proceedings held May 30, 2001 ----- 124

4 Proceedings held May 31, 2001 ----- 337

5 Proceedings held June 1, 2001 ----- 536

6

7 WITNESS EXAMINATION PAGE

8 FOR QWEST:

9 Robert Brigham Direct by Mr. Reichman 3

10 Cross by Ms. Hopfenbeck 6

11 Cross by Mr. Trincherro 33

12 Cross by Mr. Weirich 36

13 Redirect by Mr. Reichman 39

14 Recross by Ms. Hopfenbeck 45

15 Redirect by Mr. Reichman 46

16 David Teitzel Direct by Mr. Reichman 47

17 Cross by Ms. Hopfenbeck 54

18 Cross by Mr. Trincherro 93

19 Cross by Mr. Weirich 102

20 Cross by Mr. Manifold 110

21 Redirect by Mr. Reichman 119

22 Recross by Mr. Weirich 124

23 Dr. Aniruddha Banerjee Direct by Mr. Reichman 127

24 Cross by Mr. Trincherro 130

25 Cross by Ms. Hopfenbeck 167

26 Cross by Mr. Weirich 169

27 Redirect by Mr. Reichman 171

28 Recross by Mr. Trincherro 179

29 FOR AT&T:

30 Dr. Lee Selwyn Direct by Mr. Trincherro 182

31 Cross by Mr. Reichman 185

32 Cross by Mr. Weirich 213

33 Redirect by Mr. Trincherro 227

34 Redirect by Ms. Hopfenbeck 229

35 Recross by Mr. Reichman 234

36 Redirect by Mr. Trincherro 244

37 Recross by Mr. Reichman 250

38

39

40

41

42

43

44

45

46

47

48

49

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85

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87

88

89

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92

93

94

95

96

97

98

99

100

I N D E X (cont.)

2	<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
3	<u>FOR PUC STAFF:</u>		
	Thomas Turner	Direct by Mr. Weirich	260
4		Cross by Mr. Reichman	261
		Cross by Mr. Trincherro	290
5		Cross by Mr. Manifold	289
		Redirect by Mr. Weirich	294
6		Recross by Mr. Reichman	296
7	<u>FOR AT&T:</u>		
	Arlene Starr	Direct by Mr. Trincherro	298
8		Cross by Mr. Reichman	300
		Redirect by Mr. Trincherro	334
9			
	<u>FOR QWEST:</u>		
10	Scott McIntyre	Direct by Mr. Reichman	337
		Cross by Mr. Trincherro	342
11		Redirect by Mr. Reichman	379
		Recross by Mr. Trincherro	384
12			
	<u>FOR WORLDCOM:</u>		
13	Anthony DiTirro	Direct by Ms. Hopfenbeck	387
		Cross by Mr. Reichman	388
14		Redirect by Ms. Hopfenbeck	404
		Recross by Mr. Reichman	406
15			
	<u>FOR PUC STAFF:</u>		
16	Lance Ball	Direct by Mr. Jones	414
		Cross by Mr. Reichman	415
17		Cross by Mr. Manifold	437
		Cross by Mr. Trincherro	440
18		Redirect by Mr. Jones	443
		Recross by Mr. Reichman	446
19			
	Cynthia Van Landuyt	Direct by Mr. Weirich	452
20		Cross by Mr. Reichman	453
		Cross by Mr. Trincherro	470
21		Redirect by Mr. Weirich	473
		Recross by Mr. Reichman	475
22			
	<u>FOR AARP:</u>		
23	Dr. Pamela Cameron	Direct by Mr. Manifold	476
		Cross by Mr. Reichman	479
24		Cross by Mr. Weirich	498
		Cross by Mr. Trincherro	503
25		Redirect by Mr. Manifold	504

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X (cont.)

<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
<u>FOR PUC STAFF:</u>		
Jim Stanage	Direct by Mr. Jones	506
	Cross by Mr. Reichman	507
	Cross by Mr. Manifold	525
	Recross by Mr. Reichman	533
<u>FOR OWEST:</u>		
David Teitzel - PAL issues		
	Cross by Mr. Harlow	540
	Redirect by Mr. Reichman	628
	Recross by Mr. Harlow	635
David Teitzel - Centrex issues		
	Cross by Mr. Harlow	637
	Redirect by Mr. Reichman	701
	Recross by Mr. Harlow	708
<u>FOR NWPA:</u>		
Don Wood	Direct by Mr. Harlow	709
	Cross by Mr. Reichman	714
	Redirect by Mr. Harlow	760
	Recross by Mr. Reichman	764
<u>FOR ATG:</u>		
Dr. Nina Cornell	Direct by Mr. Harlow	765
	Cross by Mr. Reichman	767
	Redirect by Mr. Harlow	785
	Recross by Mr. Reichman	788
	Redirect by Mr. Harlow	790
	Recross by Mr. Reichman	791

--ooOoo--

E X H I B I T S

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 201	Teitzel direct testimony -----	52
Qwest 202	(Teitzel) Basic Exchange Pricing Summary Residential (Confidential) -----	52
Qwest 203	(Teitzel) Basic Exchange Pricing Summary Business (Confidential) -----	52
Qwest 204	(Teitzel) Extended Area Service (Confidential) -----	52
Qwest 205	(Teitzel) Centrex Plus Services (Confidential) -----	52
Qwest 206	(Teitzel) Vertical Features/services (Confidential) -----	52
Qwest 207	(Teitzel) Listing Services (Confidential) --	52
Qwest 208	(Teitzel) IntaLATA Long Distance Services (Confidential) -----	52
Qwest 209	McIntyre Direct Testimony -----	342
Qwest 210	(McIntyre) Private Line Diagram -----	342
Qwest 211	(McIntyre) Oregon Analog Private Line Proposal (Confidential) -----	342
Qwest 212	(McIntyre) Oregon Digital Data Proposal (Confidential)-----	342
Qwest 213	(McIntyre) DS1 Service Proposal (Confidential) -----	342
Qwest 214	(McIntyre) Switched Access Network Diagram -	342
Qwest 215	(McIntyre) Current Switched Access Price Structure -----	342
Qwest 216	(McIntyre) Proposed Switched Access Price Structure -----	342
Qwest 217	(McIntyre) Oregon Switched Access Proposal -	342
Qwest 218	Brigham Direct Testimony -----	6

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 219	(Brigham) Summary of Selected Rate Design Proposals (Confidential) -----	6
Qwest 220	(Brigham) Deaveraged Loop Zones Qwest-Oregon -	6
Qwest 221	(Brigham) Oregon Residence Access Line NRC Study (Confidential) -----	6
Qwest 222	Teitzel Rebuttal Testimony -----	52
Qwest 223	(Teitzel) Verizon responses to Qwest data requests -----	52
Qwest 224	(Teitzel) Staff responses to Qwest data request 11 -----	52
Qwest 225	(Teitzel) Metronet v. Qwest, granting Qwest's motion for summary judgment -----	52
Qwest 226	Banerjee Rebuttal Testimony -----	129
Qwest 227	(Banerjee) Qualifications -----	129
Qwest 228	Bailey Rebuttal Testimony -----	536
Qwest 229	McIntyre Rebuttal Testimony -----	342
Qwest 230	Brigham Rebuttal Testimony -----	6
Qwest 231	(Brigham) New Mexico Proceedings transcript -	6
Qwest 232	Supplemental Responses to Qwest's Second Set Data Requests (Confidential) -----	194
Qwest 233	Draft from UT85 of Toll, Access, Custom Calling Rates -----	279
Qwest 234	Article by Armando Levy - Semi-Parametrics Estimates -----	281
Qwest 235	WorldCom's Responses to Qwest's first set of Data Requests (Confidential) -----	401
Qwest 236	WorldCom's Responses to Qwest's third set of Data Requests (Confidential) -----	401

<u>E X H I B I T S (cont.)</u>		
<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
1		
2	Qwest 237 WorldCom's Supplemental Responses to Qwest's	
3	third set of Data Requests (Confidential) --	401
4	Qwest 238 Proposed Amendments to House Bill 2659 -----	538
5	Qwest 239 Request 01-003 to NWPA -----	726
6	Qwest 240 Request 03-033 to U.S. West -----	735
7	Qwest 241 Request 03-032 to U.S. West -----	775
8	--ooOoo--	
9	Staff 1 Ball Direct Testimony -----	415
10	Staff 2 (Ball) Qualifications, Recommended Rate Spread	
11	by Service, by Customer Class, Comparison of	
12	Qwest and Staff Rate Spread by Major Service	
13	Category -----	415
14	Staff 3 Van Landuyt Direct Testimony -----	453
15	Staff 4 (Van Landuyt) Qualifications; Switched Access	
16	Service -----	453
17	Staff 5 (Van Landuyt) Switched Access Rate Design	
18	(Confidential) -----	453
19	Staff 6 (Van Landuyt) Private Line Service -----	453
20	Staff 7 (Van Landuyt) Private Line Rate Design	
21	(Confidential) -----	453
22	Staff 8 Turner Direct Testimony -----	260
23	Staff 9 (Turner) Qualifications; Message Toll Service	
24	Rates Exhibits (Tables, FCC Study) -----	260
25	Staff 10 (Turner) Toll Revenue and Demand Analysis	
26	(Confidential) -----	260
27	Staff 11 (Turner) Access Imputation Analysis	
28	(Confidential) -----	260
29	Staff 12 (Turner) Price Elasticity Study	
30	(Confidential) -----	260

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Staff 13	Sloan Direct Testimony -----	414
Staff 14	(Sloan) Non-confidential exhibits in support of direct, pp. 1-12 -----	414
Staff 15	(Sloan) Pages 2-12, exhibits to Sloan testimony issues (Confidential) -----	414
Staff 16	Stanage Direct Testimony (EAS; Advanced services, business and residential local exchange access; residential NRC) -----	516
Staff 17	(Stanage) Qualifications -----	506
Staff 18	(Stanage) Non-confidential exhibits in support of direct, pp. 1-8 -----	506
Staff 19	(Stanage) Exhibits in support of direct (Confidential) -----	506
Staff 20	Turner Rebuttal Testimony -----	260
Staff 21	(Turner) Status Report in UM 962 Wholesale Discounts -----	260
Staff 22	Two pages, CALLS Analysis -----	500
	--ooOoo--	
AARP 1	Cameron Direct Testimony -----	479
AARP 2	(Cameron) Qualifications -----	479
AARP 3	Cameron Rebuttal Testimony -----	479
	--ooOoo--	
ATG 1	Cornell Direct Testimony -----	766
ATG 2	(Cornell) Qualifications -----	766
ATG 3	ATG's Request 03-019 to Qwest -----	654
ATG 4	(Not offered)	
ATG 5	Centrex Prime Pricing (Confidential) -----	664

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
ATG 6	Excerpt of Dennis Hruska Deposition, Metronet v. U.S. West -----	667
ATG 7	Centrex Prime Issues (Confidential) -----	667
ATG 8	Small Business Basic Exchange Service, Key Beliefs and assumptions - Tedd Bell (Confidential)-----	679
ATG 9	High level impacts of ONA resale from Judette Hemachandra to Mark Reiger (Confidential) --	672
ATG 10	Fifteenth Supplemental Order, Docket UT-950200 -----	683
ATG 11	ATG's Request 02-014 to Qwest -----	692
ATG 12	ATG's Request 02-004S1 to Qwest -----	692
--ooOoo--		
AT&T 1	Starr Direct Testimony -----	299
AT&T 1	Starr Direct Testimony (Confidential) -----	299
AT&T 2	(Starr) Response to Data Request 003 -----	299
AT&T 3	(Starr) Comparison of Qwest intrastate rates to FCC interstate rates -----	299
AT&T 4	(Starr) Response to Data Request 006,007 ---	299
AT&T 5	(Starr) Response to Data Request 002 -----	299
AT&T 6	(Starr) Response to Data Request 001 -----	299
AT&T 7	(Starr) Qwest proposed Oregon intrastate rates, percent markup over UM 844 -----	299
AT&T 8	(Starr) Present Market Structure -----	299
AT&T 9	Data Request Response 02-025 -----	101
AT&T 10	Draft Proposed Amendments HB 2659 -----	101
AT&T 11	Data Request Response 04-026 (Confidential)	167

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
AT&T 12	Data Request Response 04-027 (Confidential)	167
AT&T 13	Data Request Response 04-028 -----	167
AT&T 14	Data Request Response 04-037, Article by Rappaport -----	167
AT&T 15	Qwest's Form 10Q -----	353
AT&T 16	Data Request Response 04-040 -----	376
--ooOoo--		
AT-W 1	Selwyn Direct Testimony -----	185
AT-W 1	Selwyn Direct Testimony (Confidential) -----	185
AT-W 2	(Selwyn) Qualifications -----	185
AT-W 3	(Selwyn) Percent Change in California Residence and Business MTS Rates -----	185
AT-W 4	(Selwyn) Percent Change in Residence MTS per Qwest's Proposal -----	185
AT-W 5	(Selwyn) Revised Toll Imputation Calculation (Confidential) -----	185
--ooOoo--		
NWPA 1	Wood Direct Testimony -----	710
NWPA 1	Wood Direct Testimony (Confidential) -----	710
NWPA 2	(Wood) Qualifications -----	710
NWPA 3	(Wood) Proposed PAL Rates (Confidential) -----	710
NWPA 4	(Wood) Alternative Proposed PAL Rates (Confidential) -----	710
NWPA 5	Response to Data Request 03-008 -----	574
NWPA 6	Response to Data Request 03-011 -----	581
NWPA 7	Response to Data Request 04-039 -----	582

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
NWPA 8	Response to Data Request 04-037	----- 588
NWPA 9	Response to Data Request 04-040	----- 595
NWPA 10	Response to Data Request 05-053	----- 596
NWPA 11	Response to Data Request 05-050	----- 618
NWPA 12	Response to Data Request 03-035	----- 623
NWPA 13	Response to Data Request 03-021 (Confidential)-----	626
NWPA 14	Response to Data Request 03-030	----- 626
NWPA 15	Response to Data Request 04-036	----- 627

--ooOoo--

WorldCom 1	DiTirro Direct Testimony	----- 388
WorldCom 2	Selwyn Direct Testimony	----- 19
WorldCom 3	(Not admitted)	
WorldCom 4	Response to Data Request 03-022	----- 96

--ooOoo--

1 SALEM, OREGON, FRIDAY, JUNE 1, 2001.

2

3 ALJ CROWLEY: This is the time and date for
4 hearing in Case UT 125. I've just learned from Ms.
5 Rackner, who is appearing for WorldCom, that AT&T has no
6 questions for Mr. Bailey. WorldCom has no questions for
7 Mr. Bailey. And Staff has told me they have no questions
8 for Mr. Bailey. So should we call Mr. Bailey and tell him
9 that we don't need to talk with him?

10 MR. REICHMAN: Yes, Your Honor. We will do
11 that. As I understand, there will be no objections to the
12 admission of his testimony.

13 ALJ CROWLEY: There's no objections to his
14 testimony, so it's my understanding.

15 MR. REICHMAN: If we don't need him on the
16 record, and we'll call him and tell him to continue his
17 vacation.

18 ALJ CROWLEY: Would you like to do that?

19 MR. REICHMAN: Yes. At this point, Qwest would
20 move Exhibit Qwest 228 into the record.

21 ALJ CROWLEY: Thank you. That's admitted.

22 MR. REICHMAN: Your Honor, I'm not sure if you --
23 I heard you say WorldCom had no objections. I'm not sure
24 if you said AT&T had no questions or had no questions for
25 Mr. Bailey.

1 ALJ CROWLEY: WorldCom -- Ms. Rackner assured me
2 that AT&T doesn't have questions, that WorldCom has no
3 questions. And I talked with Staff earlier and they said
4 they have no questions.

5 MR. REICHMAN: Okay. I just want to make sure
6 all the parties were covered.

7 ALJ CROWLEY: Okay.

8 MR. REICHMAN: We will -- Mr. Teitzel is calling
9 Mr. Bailey.

10 ALJ CROWLEY: Excellent.

11 MR. REICHMAN: Before we proceed with the other
12 witnesses, when it's the appropriate time, we have one
13 matter we'd like to address.

14 ALJ CROWLEY: Go ahead.

15 MR. REICHMAN: I guess I'd have to ask Your Honor
16 if you know what our next exhibit number is?

17 ALJ CROWLEY: Just a moment. 238.

18 MR. REICHMAN: At the risk of again being accused
19 of being a witness, I'd like to distribute and then offer
20 an exhibit to be passed around first.

21 ALJ CROWLEY: Thank you.

22 MR. REICHMAN: I have handed around what's been
23 premarked as Exhibit Qwest 238. I'd like to represent to
24 the Commission that this is a version of House Bill 2659.
25 It's the so-called dash 8 amendment. And we're offering

1 this to update the record with respect to Exhibit AT&T 10.
2 AT&T 10 was an earlier draft of this bill.

3 It's noted on there. It's the HB 2659-6
4 amendments on AT&T 10. This would be dash 8 amendments on
5 Qwest 238.

6 And I would also represent to the Commission that
7 it was my understanding that the dash 8 version of Qwest
8 238 was passed out at the committee yesterday with a "do
9 pass" recommendation to the entire house.

10 I also understand that the prior version, AT&T
11 10, was actually never considered by the committee, as is
12 the case with many draft bills. But in order to update the
13 record, since this does include different language from
14 AT&T 10, I'd offer this exhibit.

15 ALJ CROWLEY: Any objections? It's admitted.

16 MR. REICHMAN: Thank you.

17 ALJ CROWLEY: Are we ready to proceed, Mr.
18 Harlow?

19 MR. HARLOW: Yes. Thank you, Your Honor.

20 ALJ CROWLEY: Mr. Wood?

21 MR. HARLOW: Mr. Wood is here with me at counsel
22 table. But we were going to do cross examination of Mr.
23 Teitzel before we presented.

24 ALJ CROWLEY: Oh, I'm sorry. That's right. I
25 had forgotten that we had agreed to that arrangement.

1 MR. HARLOW: Your Honor, I'd like to just note
2 for the record that Northwest Payphone Association has
3 changed its name to Northwest Public Communications
4 Council. I think it would be easier for all of us since
5 all the documents are in the name of Northwest Payphone
6 Association, since we're all used to using that name, if we
7 just stick with that. I do want to know that --

8 ALJ CROWLEY: That would be c-i-l?

9 MR. HARLOW: Pardon me?

10 ALJ CROWLEY: Council, c-i-l?

11 MR. HARLOW: Yes, Your Honor.

12 ALJ CROWLEY: And what's your acronym?

13 MR. HARLOW: NWPCC.

14 ALJ CROWLEY: Thank you. All right. Thanks for
15 the update.

16 So, Qwest, if you'd call Mr. Teitzel.

17 MR. REICHMAN: Yes. Qwest recalls Mr. David
18 Teitzel to the stand.

19 ALJ CROWLEY: Thank you. Mr. Teitzel, you're
20 still under oath.

21 THE WITNESS: Yes, ma'am.

22 ALJ CROWLEY: Mr. Teitzel has already been sworn
23 as a witness and has had his exhibits and testimony
24 admitted, so he's -- unless you have something further, Mr.
25 Reichman, he should be ready for cross.

1 MR. REICHMAN: Yes, he is.

2 MR. HARLOW: Thank you, Your Honor.

3 --ooOoo--

4 DAVID TEITZEL,

5 Thereupon recalled as a witness on behalf of Qwest, having
6 been previously sworn, was examined and did testify as
7 follows:

8

9 CROSS EXAMINATION

10 BY MR. HARLOW:

11 Q Good morning, Mr. Teitzel.

12 A Good morning.

13 Q As I think you know, I represent two intervenors
14 in this proceeding; Northwest Payphone Association and ATG,
15 or Advanced Telecom Group.

16 And I would like to start out, however, with the
17 issues raised by the Northwest Payphone Association. I'd
18 like to start out with your definition of payphone service.

19 And if you wish, you may refer to data request
20 response 55.

21 First of all, when we're talking about payphone
22 service --

23 A Excuse me. I don't have that data request in
24 front of me. Can I have a copy of that?

25 Q I don't have a spare copy.

1 MR. HARLOW: I don't know if counsel has
2 responses available for the witness.

3 MR. REICHMAN: Why don't we see what kind of
4 question you ask and we'll go from there.

5 MR. HARLOW: I think so.

6 Q BY MR. HARLOW: How would you define payphone
7 service, Mr. Teitzel?

8 A Well, payphone service from my perspective would
9 be coin operated telephones, whether they be provided
10 directly by Qwest through our de-regulated payphone
11 entity. I think payphone could also incorporate services
12 provided by a competitive provider such as public access
13 line provider, if you will.

14 Q So basically when we're talking about payphone
15 service, when you're talking about payphone service, you're
16 talking about customer premise equipment, or CPE; is that
17 correct?

18 A Yes, I am.

19 Q And that's distinguished from payphone access
20 lines service, which is a network service provided by local
21 exchange company?

22 A Payphone access line is a switched local exchange
23 access line, very similar to a flat business line, if you
24 will.

25 Q Now, Mr. Wood used the term "PTAS", which I think

1 stands for paid telephone access service. Are you
2 comfortable using the term "PTAS" to reflect the LEC
3 provided network services opposed to CPE payphone services?

4 A I would accept that.

5 Q Thank you. Now, Qwest provides payphone
6 services, does it not?

7 A Yes, it does.

8 Q And it does so -- it does not have a separate
9 subsidiary for its payphone services; is that correct?

10 A There is not a structural separation, but Qwest
11 payphone operations are deregulated. There's an accounting
12 separation.

13 Q Could we call those CPE based operations Qwest's
14 payphone division, if you will?

15 A That's reasonable.

16 Q Okay. Qwest also provides PTAS services to both
17 its own payphone division and its competitors; is that
18 correct?

19 A That is correct.

20 Q And you understand that Northwest Payphone
21 Association is comprised of a membership that consists of
22 Qwest payphone service competitors; is that correct? Is
23 that your understanding?

24 A That is also fair.

25 Q Now, I take it you're familiar with Section 276

1 of the Federal Telecommunications Act of 1996?

2 A In general, that's true.

3 Q And, in general, that section of the act
4 addressed both payphone services and PTAS; is that correct?

5 A That's my understanding.

6 Q And the Federal Communications Commission
7 entered -- has entered several orders regarding Section 276
8 of the act, some of which are referred to in yours and Mr.
9 Wood's testimony?

10 A That is correct.

11 Q Would it be fair to say you agree with the
12 characterization that Section 276 brought about a number of
13 changes in the payphone industry?

14 A That's a general question. It did bring about
15 changes, I would agree. As to a specific number, I'm not
16 sure what you had in mind.

17 Q Do you have an understanding of what some of the
18 goals of 276 of the act were?

19 MR. REICHMAN: And I'm just going to object just
20 for the record, to the line of questioning to the
21 extent that Mr. Teitzel is not a lawyer and is not here to
22 give any kind of legal opinions.

23 ALJ CROWLEY: I'll note that.

24 Q BY MR. HARLOW: Do you recall the question?

25 A Would you please restate the question?

1 Q Do you have any understanding in general as to
2 the goals of Section 276 of the Federal Telecommunications
3 Act?

4 A In general, I can recite my recollection of some
5 of the requirements of that section. As to the objectives
6 of the drafters of that section, I'm not sure I could offer
7 an opinion as to that.

8 Q Is one of the stated objectives of Section 276 to
9 promote the widespread deployment of payphones?

10 A I believe that would be an objective, yes.

11 Q And do you recall that there's a provision in
12 Section 276 that states requirements that are inconsistent
13 with Section 276 may be preempted?

14 A I don't recall that specific passage, but I would
15 not dispute the fact that it's there.

16 Q Now, as you noted in your testimony I believe,
17 Section 276 prohibits Qwest from subsidizing its payphone
18 service.

19 Do you recall that?

20 A I do.

21 Q And, again, based on the definitions we've
22 already established, that means that Qwest shall not
23 subsidize from its exchange services its payphone division,
24 if you will?

25 A That's correct. And I believe Qwest is complying

1 with that requirement.

2 Q And an element of that prohibition against cross
3 subsidy and against the non-discrimination provisions is
4 that Qwest payphone division must pay the same rates for
5 PTAS as do Qwest payphone competitors; is that correct?

6 A I'm not sure I would characterize that as being
7 the same rates. And the reason I'm answering the question
8 that way is that Qwest payphone division uses the service
9 known as Smart PAL service, which is not the same service
10 as a basic PAL service which is provided to many of the
11 NWPA. So it's not specifically the same price. It's a
12 non-discriminatory price.

13 Q Well, let's go into a little more detail. Qwest
14 has what are referred to as dumb phones which require a
15 Smart service?

16 A That's correct.

17 Q And basically what that service does is provide
18 the coin control functions, the collection and return of
19 coins, and the rating of the calls through the access line
20 rather than through the CPE; is that correct?

21 A Coin control functions are inherent as a part of
22 the switching function of the central office, that's
23 correct.

24 Q And in contrast, basic PAL service is basically
25 the same as any access line and the coin control functions

1 need to be provided by the payphone set itself; is that
2 correct?

3 A It's a basic PAL services on a flat rated basis,
4 the same service essentially as a flat business line. And
5 the coin control functions are in the set itself.

6 Q And Qwest has both dumb and Smart payphones
7 employed in Oregon; is that correct?

8 A It's my understanding that the majority of Qwest
9 pay telephones are the Smart PAL version. I think we have
10 a few of the telephone sets that have the coin control
11 inherent in them.

12 Q And that would be your millennium sets?

13 A Yes.

14 Q And those would subscribe to basic PAL service;
15 is that correct?

16 A I believe that's correct.

17 Q When they're subscribed to the same service as
18 competitors, Qwest payphones pay the same rates for
19 identical services as its competitors; is that correct?

20 A That would be correct.

21 Q And those costs for access lines I assume get
22 passed through to payphone end users; is that correct?

23 MR. REICHMAN: Object to the question. I'm not
24 sure -- I think it's vague as to cost.

25 MR. HARLOW: The PTAS costs.

1 MR. REICHMAN: I think it also goes outside the
2 scope of his testimony about how -- you seem to be talking
3 about rates now for the payphone users. I don't believe he
4 has touched on that in his testimony.

5 MR. HARLOW: Well, Your Honor, at issue both
6 under state law as well as under federal law is public
7 policy regarding pricing for PTAS services and passed
8 through of PTAS rates to end users as relates to the public
9 policy arguments that we intend to make.

10 MR. REICHMAN: I don't think he's talking about
11 PTAS rates. He's talking about what different companies
12 charge for coin calls. It seems to be an entirely
13 different subject versus what the payphone providers pay
14 for their access.

15 MR. HARLOW: Perhaps you misunderstood my
16 question. And I'm willing to try to rephrase it.

17 ALJ CROWLEY: Would you clarify your question?

18 MR. HARLOW: Certainly, Your Honor.

19 Q BY MR. HARLOW: PTAS rates of Qwest, the LEC
20 side, if you will, as opposed to payphone division, those
21 are rates charged to end users; is that correct?

22 A And if I could ask a clarifying question. Are
23 you asking me are the coin rates themselves --

24 Q I'm not talking about coin rates. I'm talking
25 about Smart PAL, basic PAL, screen services, PTAS services

1 only.

2 MR. REICHMAN: Excuse me. Maybe you could define
3 what you mean by "end users". That might clarify.

4 MR. HARLOW: I'm talking about end users of the
5 access line services.

6 MR. REICHMAN: Competitive payphone providers?

7 MR. HARLOW: Competitive payphone providers and
8 Qwest.

9 ALJ CROWLEY: Thank you. That does clarify.

10 MR. HARLOW: I apologize for the confusion.

11 Q BY MR. HARLOW: Do you understand the question?

12 A I will try to answer your question as I
13 understand it. We talked earlier about the fact that Qwest
14 has a deregulated payphone entity. That entity is charged
15 a flat PAL or Smart PAL access line rate for that
16 particular service. At that point that provides that
17 deregulated entity the ability to provide coin type
18 services to customers, so to the customer actually
19 inserting the coin into the telephone.

20 So through its pricing structure, Qwest
21 deregulated payphone entities would recover the cost that
22 it pays the Qwest regulated entity for that access line.

23 Did that answer your question?

24 Q I think it does. And so, in part, the coins that
25 payphone end users put in payphones cover the cost of the

1 access lines services, as well as the other costs of the
2 payphone operations?

3 A Yes.

4 Q Section 276, would it be your understanding that
5 Section 276 does not prohibit a subsidy of PTAS services?

6 A I don't recall the specific language of that
7 section. I'd be willing to review it and offer an opinion
8 if you'd like.

9 Q Well, without reviewing it, can you recall any
10 prohibition in Section 276 that prohibits subsidization of
11 PTAS as opposed to payphone services?

12 MR. REICHMAN: Object to the question. It's
13 vague when you use the term "subsidization". Also object
14 to the answer to the line of questioning as it calls for a
15 legal conclusion

16 ALJ CROWLEY: I've noted your objection to it.
17 Thank you.

18 Q BY MR. HARLOW: Can you answer?

19 ALJ CROWLEY: Can you -- Mr. Reichman, what
20 specifically did you find vague about that?

21 MR. REICHMAN: The use of the term
22 "subsidization". That could be used in various ways.

23 ALJ CROWLEY: Could you elaborate on how you're
24 using subsidization?

25 MR. HARLOW: Well, I'm using the term as it's

1 used in Section 276, as well as Mr. Teitzel's
2 characterization in his rebuttal testimony of Section 276.

3 ALJ CROWLEY: And your question is whether
4 Section 276 prohibits subsidization of --

5 MR. HARLOW: Of PTAS.

6 ALJ CROWLEY: PTAS.

7 MR. HARLOW: As opposed to payphone service.

8 ALJ CROWLEY: And Mr. Teitzel just said he didn't
9 know.

10 MR. HARLOW: Well, I think we're trying to
11 clarify that.

12 ALJ CROWLEY: I don't think he did.

13 THE WITNESS: I'm sorry. I don't have that
14 section in front of me, so I can't recall the specific
15 wording. I believe I said that if I had the section in
16 front of me, I would be willing to review that and offer an
17 opinion.

18 But with that caveat, my recollection is that
19 that section would prohibit subsidization of payphone type
20 services from other Qwest services.

21 Q BY MR. HARLOW: Then let's move on. Now, do you
22 recall that the FCC preempted certain state regulations of
23 payphone services --

24 MR. REICHMAN: It's been asked and answered. I'm
25 sorry. I thought you were finished.

1 MR. HARLOW: I was going to say "including local
2 coin rates".

3 MR. REICHMAN: I'll withdraw that objection.

4 THE WITNESS: And I'm sorry. I'm not sure I
5 caught the entire question. Would you repeat that?

6 Q BY MR. HARLOW: Do you recall that FCC preempted
7 State Commission regulation of both local and payphone coin
8 rates?

9 A That's a general question. My answer would be
10 no. I don't believe, for example, that the FCC's preempted
11 the State of Oregon from making decisions as to pricing of
12 payphone rates in any respect.

13 If you're referring to another order in another
14 state, there may be orders on record that may be under
15 appeal. But I would need to clarify your question before
16 answering that.

17 Q Well, I want to make sure you focus now on the
18 rate for a local call, the coins that are put in the
19 payphone set itself.

20 Are those -- is Qwest regulated as to those
21 rates?

22 A I believe Qwest is deregulated as to those
23 rates.

24 Q Thank you. And, of course, you discussed in your
25 testimony certain FCC orders regarding requirements of

1 pricing of PTAS services.

2 Do you recall that?

3 A Yes, I do.

4 Q And particularly there's been a lot of discussion
5 in the parties' testimony about the new services test.

6 I assume you recall that as well?

7 A Yes. Yes, I do.

8 Q And is it your understanding that that new
9 services test arose from the reference in Section 276 of
10 the act to the decision of the FCC?

11 A That's my recollection.

12 Q Now, is it your understanding that that means the
13 new services test only applies to new services or does it
14 apply to all PTAS services, whether they're new or
15 existing?

16 A It's my understanding that the original intent
17 was that that test was to apply to, quote, unquote,
18 strictly new services, but that its application was
19 expanded to include payphone type services.

20 Q So does Qwest agree that the new services
21 methodology, whatever we define that to be, applies to
22 Oregon's pricing of PTAS services in this proceeding?

23 A I believe I testified that it would apply. It's
24 a consideration in Oregon. I believe I also testified that
25 Qwest believes it meets those requirements.

1 Q Just so we're totally clear, you say it's a
2 consideration. Do you mean it's merely a consideration or
3 is the new services tests in Qwest's opinion binding on
4 this Commission's pricing of PTAS services?

5 MR. REICHMAN: Your Honor, before he answers,
6 this is a different line of questioning. I want to object
7 again to the extent it calls for a legal conclusion. I
8 don't want to have to continue to interrupt these
9 questions, but I thought since we had moved to a different
10 area I need to impose that.

11 ALJ CROWLEY: I heard Mr. Teitzel answer that he
12 understands that the new services test applies to the
13 pricing of PTAS and Qwest meets those requirements.

14 THE WITNESS: That was my response.

15 ALJ CROWLEY: That should be sufficient, Mr.
16 Harlow.

17 THE WITNESS: I would augment that by saying I'm
18 not an attorney. That is my opinion.

19 Q BY MR. HARLOW: We're asking for Qwest's position
20 as opposed to a legal conclusion. Does that change your
21 answer?

22 A I would respond by saying I'm not an attorney.
23 If it calls for a legal conclusion, I'm not offering that.
24 That is my opinion --

25 Q Do you --

1 A -- as a policy witness.

2 Q Do you believe you have a working understanding
3 of the new services tests or methodology for pricing?

4 A I believe I do.

5 Q And the new services test requires a filing of a
6 studies analysis of work papers in general?

7 A I believe this does not specify with specificity
8 what is required. I believe that it says that a price must
9 be cost based. It must include a reasonable amount of
10 contribution, if you will, to cover the common costs.

11 Q Would you agree that the starting point is the
12 projection of what's called the direct costs of the
13 service?

14 A I believe that would be a starting point, yes.

15 Q And, as I understand it, Qwest has used building
16 block prices which are based on a total service long rate
17 incremental cost, or TSLRIC, methodology to determine
18 direct cost of PTAS services?

19 A And those costs are identified in Mr. Brigham's
20 testimony. That is correct.

21 Q And then next do you recall that the new services
22 test requires an estimate of revenues from the service at
23 the proposed tariff rate?

24 A I do recall that.

25 Q And do you recall a requirement that the carrier

1 provide an estimate of its overall traffic and revenues
2 related to the, quote, new service?

3 A I recall the revenue issue. I'm not sure that I
4 recall the traffic issue. Again, I don't have the test in
5 front of me or the specific language.

6 Q Would you agree that each PAL line that Qwest
7 sells generates not only the PAL state tariff rate but also
8 a tariff revenue or revenue associated with Qwest's federal
9 end user common line or EUCL tariff, as well as Qwest's
10 primary interexchange carrier -- what does the last C stand
11 for?

12 A Charge.

13 Q Charge revenue?

14 A I would not agree with that. There was no longer
15 a PIC charge in Oregon. There is an end user common line
16 charge. And I would agree that the end user common line
17 charge applies to all retail loop based services, including
18 public access lines, flat business lines, Centrex lines.
19 Any other loop based line.

20 Q Well, you referred us in one of our requests for
21 the EUCL and PICC rates to Qwest's federal tariff --

22 ALJ CROWLEY: Excuse me. For the record.
23 P-I-C-C and E-U-C-L.

24 Q BY MR. HARLOW: And then it was designated the
25 tariff FCC Number 5. And now I believe it's designated

1 Tariff FCC number 1.

2 Do you recall that?

3 A Yes, I do.

4 Q Okay. In fact, we took a look at it. And I want
5 to know if you would agree with this. We found that the
6 single line PICC had been eliminated but there was still a
7 PICC for multi-line business service.

8 Do you recall that?

9 A And I should clarify. You're correct, there is a
10 PICC charge for multi-line business in Oregon. The single
11 line PICC charge, that's P-I-C-C, was eliminated in July of
12 last year.

13 Q Now --

14 A And it's my understanding that the single line
15 PICC would be the charge that would apply to the single
16 line coin phone at a location.

17 Q Now, it's your understanding that the multi-line
18 EUCL; E-U-C-L, applies to PAL service; is that correct?

19 A To be very honest, I'm not certain that is
20 correct. I thought that multi-line end user common line
21 charges apply to several more than one business access
22 lines terminating at a single location.

23 Q Would you accept subject to check that the
24 current EUCL applicable to PAL service is \$8.92?

25 MR. REICHMAN: Excuse me. Are you asking if

1 that's the single or the multi-line charges in --

2 MR. HARLOW: I'm asking him if that's the EUCL
3 rate applicable to PAL service currently in Oregon. And if
4 you -- counsel can provide a copy of Exhibit 219, at page
5 20, there is a figure shown for CALC; C-A-L-C, that equal
6 \$8.92.

7 MR. REICHMAN: I'd like to show him that before
8 he accepts that.

9 MR. HARLOW: I'd appreciate that. We'll have
10 several questions on that.

11 MR. REICHMAN: Is that an exhibit to Mr.
12 Brigham's testimony? Can you direct him to a page?

13 MR. HARLOW: Page 20, Mr. Teitzel.

14 ALJ CROWLEY: This is a confidential exhibit, so
15 please let me know if we're about to mention confidential
16 numbers.

17 MR. REICHMAN: I'm sorry. Did you say page 20?

18 MR. HARLOW: Page 20.

19 THE WITNESS: I have that page and I see the
20 cite. I don't believe this is a confidential number.

21 Q BY MR. HARLOW: What is the number for the CALC;
22 C-A-L-C?

23 A The number under UT 125 proposed rates does show
24 8.92 in Mr. Brigham's exhibit.

25 Q And is CALC an acronym for customer access

1 charge?

2 A Yes, it is.

3 Q Is that essentially the same charge for EUCL
4 under a different name?

5 A It's a synonym for the same thing.

6 Q And does that number strike you as the multi-line
7 EUCL rate or the single line EUCL rate?

8 A It is higher than the single line CALC rate. I'm
9 not certain as to how Mr. Brigham derived that number, to
10 be frank. But it is higher than the single line rate.

11 Q And I'm looking -- I'll represent to you that I'm
12 looking at Qwest Tariff FCC Number 1, first revised page
13 4-7, section 4.6(f).

14 Will you accept subject to check that that tariff
15 reads as follows: Quote, When a customer is provided
16 either single or multiple public access line, (PAL) by the
17 company, the EUCL and the PICC multi-line business
18 subscriber rates apply for each such PAL?

19 MR. REICHMAN: Your Honor, I'd rather that the
20 witness be allowed to see the document than to accept
21 something subject to check.

22 MR. HARLOW: May I approach?

23 ALJ CROWLEY: Please.

24 THE WITNESS: This is the highlighted section
25 you're referring to?

1 Q BY MR. HARLOW: Yes. Do you want to accept it as
2 I read, or would you like to read it into the record?

3 A I've read this and I will accept your
4 representation.

5 Q Thank you. Will you accept subject to check that
6 the current multi-line PICC in Oregon is \$2.79 per line per
7 month?

8 A I would accept that subject to check.

9 Q Now, the new services tests looks first at direct
10 costs. And I think we've already asked and you've answered
11 that that's based on TSLRIC. But I'd like to tie that into
12 Exhibit 219, if we could.

13 It's my understanding that you are equating
14 direct cost to the column that's headed "UM 773 total
15 cost"; is that correct?

16 A That's correct.

17 Q Now, the next column to the left of Exhibit 219
18 is UM -- excuse me. I withdraw that.

19 This is not the price floor, however. The price
20 floor is a higher number in each column; is that correct?

21 A Yes. The price floor is based on the building
22 blocks, if you will, that exist in Oregon that would
23 constitute a comparable service.

24 Q Now, the new services test allows a LEC to mark
25 up -- to add a markup over direct costs to derive at a

1 price; is that correct?

2 A That's right.

3 Q And do you understand that the new services test
4 provides that that markup should be an overhead loading?

5 A I'm not sure that's an entire characterization of
6 what it requires. I believe it said a reasonable
7 contribution, or words to that effect, above direct costs.

8 Q Is that the basis of your testimony and
9 assumption or an understanding that the new services test
10 allows a reasonable contribution as opposed to a reasonable
11 allocation of overhead?

12 A I'll respond by saying that defining contribution
13 would be revenues the company receives over and beyond its
14 direct cost of providing service that would defray costs
15 like overhead costs.

16 Q Have you ever heard -- I'm sorry. I thought you
17 were finished.

18 A No. I am finished.

19 Q Have you ever heard the term "overhead loading"?

20 A Yes, I have.

21 Q And what's your understanding of the term
22 "overhead loading"?

23 A I think overhead loadings are a cost related term
24 that would relate to overhead costs of operating a
25 business. Overhead costs beyond those identified in the

1 direct costs of the service, for example.

2 Q Would common costs be included in an overhead
3 loading typically?

4 A I believe they would be.

5 Q Would shared cost be included in an overhead
6 loading typically?

7 A I believe they also would be.

8 Q Can you think of any other kind of costs that
9 would be included in the term "overhead loading"?

10 A I think the term "overhead loading" can be used
11 as a fairly broad term. Possibly another cost that might
12 come to mind, ad valorem type costs. Costs of marketing
13 possibly could be included.

14 Q What's an ad valorem type of cost?

15 A They're additional costs in operating a business
16 that are not specific to a particular service.

17 Q Wouldn't that -- I'm sorry.

18 A It's a form of a joint cost.

19 Q Or a common cost, wouldn't that come under the
20 common cost heading?

21 A It could be classified as a common cost term.

22 Q Now, if you look at the price floor in Exhibit
23 219, I believe you indicated in discovery responses that
24 the imputed price floor --

25 MR. REICHMAN: Excuse me. I'm sorry. I'm just

1 cautious, if you're going to use a number, we need to make
2 sure that the transcript isn't going to contain
3 confidential. If you're not, you don't need to.

4 MR. HARLOW: It's a confidential exhibit. I'm
5 not sure my question is going to get in a confidential.

6 MR. REICHMAN: I wasn't sure where you're going.
7 I just wanted to be careful.

8 MR. HARLOW: Yes. I appreciate your concern.
9 We'll be very careful.

10 Q BY MR. HARLOW: But the price floors shown on
11 Exhibit 219 include an allocation specified by this
12 Commission for shared and common costs; is that correct?

13 A Correct, for wholesale services.

14 Q Now, can you explain in your own words how you --
15 well, first of all, would you distinguish between
16 contribution and overhead loading?

17 A I would offer this: Contribution is markup over
18 and beyond the direct cost of the service. That
19 contribution can be used to recover or cover services like
20 joint and common and shared costs.

21 Q So contribution could include shared, joint and
22 common and something else, is that your use of the term
23 "contribution"?

24 A Yes.

25 Q And what's the something else? That additional

1 profit?

2 A I want to be very cautious by using terms like
3 "profit" or "margin" or "markup" or "contribution".
4 They're often confused.

5 I think to answer your question directly, profit
6 can be defined strictly as what is left over when all costs
7 of the firm are recovered; including investment, including
8 joint, shared, common, direct costs. And I don't believe
9 that I could characterize markup for a retail service like
10 flat business line or a PAL line as being profit.

11 Q Now, Qwest has a number of services at issue in
12 this proceeding. And would you agree that some of the
13 services provide more contribution than others?

14 A Absolutely.

15 Q So, for example, in Qwest proposed rates, PAL
16 service would provide substantially more contribution than
17 residential service?

18 MR. REICHMAN: Objection. Excuse me. I just
19 object to the term "substantially" as being vague.

20 ALJ CROWLEY: I'll note that. Go ahead.

21 MR. HARLOW: Okay. Do you need a response? May
22 the witness answer?

23 ALJ CROWLEY: I'm noting Mr. Reichman's
24 objection. Go ahead with your question.

25 Q BY MR. HARLOW: Do you recall the question?

1 A I would respond by saying that PAL services and
2 our business line access services are priced higher than
3 residential services. Now, whether that higher price is a
4 substantial difference is subject to some interpretation.
5 But it is a higher priced service.

6 Q Would you agree that the new services methodology
7 as specified by the FCC is a bottoms up approach to develop
8 costs starting with direct costs and then adding an
9 overhead loading?

10 A I believe it could be called a bottoms up
11 approach, yes.

12 Q Now, you prepared testimony for this docket in
13 November of 1999 and Qwest filed it; is that correct?

14 A I believe that was our original filing date.

15 Q And do you recall or will you accept subject to
16 check that there was a discussion of PAL rates in that
17 testimony?

18 MR. REICHMAN: Your Honor, that testimony has
19 been basically replaced by the current testimony which was
20 filed a year later. If he wants to ask him questions about
21 that, that's fine. But I would also prefer that he show
22 him rather than asking him to accept things subject to
23 check.

24 ALJ CROWLEY: I would prefer that as well, that
25 the witness has a document to look at.

1 MR. HARLOW: It will take me a moment, Your
2 Honor, but I can do that.

3 ALJ CROWLEY: All right.

4 MR. HARLOW: May I approach?

5 ALJ CROWLEY: Please.

6 THE WITNESS: I have that testimony.

7 Q BY MR. HARLOW: Okay. And it briefly addresses
8 PAL rates, does it not?

9 A Yes, it does.

10 Q And please check live there if you wish, but
11 would you agree that there was no mention of the new
12 services test in that prefiled November, 1999 testimony?

13 A That's correct.

14 Q And would you also agree that none of the
15 analysis required by the new services test was included in
16 the prefiled 1999 testimony?

17 MR. REICHMAN: Your Honor, I also object on the
18 grounds of relevance, since that testimony is not in the
19 record in this proceeding.

20 ALJ CROWLEY: All right. Mr. Harlow, since that
21 testimony has been substantially replaced, what is the
22 purpose of this line of questioning?

23 MR. HARLOW: Your Honor, the purpose of this line
24 of questioning is to show that Qwest has never followed the
25 new services methodology. We've laid a foundation that's a

1 bottoms up approach. It requires certain steps be done in
2 order. And essentially Qwest is attempting to justify
3 after the fact a rate that they decided they wanted to
4 recommend rather than following the methodology that is
5 required by the Federal Communications Commission.

6 ALJ CROWLEY: And your purpose in focusing on the
7 testimony that's been replaced?

8 MR. HARLOW: I just have a couple more
9 questions. But my purpose is to show that Qwest is
10 basically plugging the number, if you will. They're
11 just -- they decided they wanted -- want a certain rate for
12 PAL, and they're trying to justify it after the fact. They
13 have not and never have followed the new services
14 methodology.

15 MR. REICHMAN: Your Honor, Mr. Harlow's argument
16 is notwithstanding. I think if he's going to make an
17 argument that Qwest is not following the new services test,
18 he should focus on the evidence in the report which is the
19 current testimony.

20 ALJ CROWLEY: I agree. It's unwieldy to bring in
21 testimony that's been superseded.

22 MR. HARLOW: I'll move onto my next question.

23 ALJ CROWLEY: Thank you.

24 MR. HARLOW: Which also relates to it. And
25 perhaps you'll see the relevance of that.

1 ALJ CROWLEY: All right.

2 MR. HARLOW: We'll give it a try anyway.

3 Q BY MR. HARLOW: Your prefiled November, 1999
4 testimony did not recommend that PAL service be priced at
5 the equivalent business service rates; is that correct?

6 MR. REICHMAN: The same objection.

7 ALJ CROWLEY: Noted.

8 MR. HARLOW: Your Honor, may I -- this is a
9 little different issue.

10 ALJ CROWLEY: I'll allow you to pursue this line
11 of questioning a little bit.

12 MR. HARLOW: Okay. I just have this one and one
13 follow up, Your Honor.

14 Q BY MR. HARLOW: You weren't recommending parity
15 between PAL and business rates in 1999; is that correct?

16 A In this testimony, that was not recommended.

17 Q And, in fact, you recommended a higher rate for
18 PAL service than business rates?

19 A My recollection was that this was a differential
20 between PAL services and business services that was being
21 maintained in this proposal.

22 Q And the PAL rates were proposed to be higher than
23 the equivalent business rates; is that correct?

24 A They were somewhat higher, that's correct.

25 Q And, in fact, until your November 15, 2000

1 testimony -- and I'm sorry, I don't have the exhibit
2 because the book is up there. But it's the testimony
3 that's been admitted in this record.

4 That was the first time Qwest has ever
5 recommended in Oregon that PAL be priced anything other
6 than above equivalent business rates; is that correct?

7 A I don't believe that's entirely correct. I
8 believe in the UT 85 case in Oregon there was a Commission
9 order that measured PAL rates be priced at the same level
10 as measured business rates. But I believe the order
11 premise is correct relative to flat PAL service.

12 Q Okay. Thank you for the clarification.

13 MR. HARLOW: Your Honor, may I approach to
14 retrieve my notebook?

15 ALJ CROWLEY: Please.

16 Q BY MR. HARLOW: And now I'd like to refer you to
17 Exhibit -- Qwest Exhibit 201, which is your November, 2000
18 prefiled testimony.

19 A I have that.

20 Q Would you agree there's no mention of the new
21 services test in that exhibit?

22 A I would agree with that.

23 Q Would you agree there's no analysis of the
24 required elements of the new services test in that
25 exhibit?

1 A I would disagree with that characterization
2 because this testimony was filed as a component of Qwest's
3 entire case in this docket. Qwest's entire case also
4 includes Mr. Brigham's testimony, which does speak to the
5 direct cost of providing flat PAL, measured PAL and Smart
6 PAL services.

7 And I believe that we demonstrated that the
8 prices are above the cost as expressed by Mr. Brigham.

9 Q Did Mr. Brigham in his prefiled testimony mention
10 the new services test?

11 A Not to my recollection.

12 Q And you didn't mention it by name in your
13 testimony; is that correct?

14 A I did not mention that specific term in my
15 testimony, no.

16 Q Is there any discussion in your prefiled
17 testimony, Exhibit 201, of a Qwest justification for its
18 overhead loading for PAL -- proposed PAL prices?

19 A Without going back through my testimony and
20 looking at specific cites, my recollection is that we said
21 that PAL services are essentially retail services that
22 terminate to the business premises, very similar to a flat
23 business line.

24 And, therefore, you're correct in your earlier
25 comment, our position is that PAL prices and flat business

1 prices, if they're both flat services, should be priced the
2 same.

3 Q Did you ever use the term "overhead loading" in
4 the testimony, to your recollection?

5 A I don't recall using that specific term in my
6 testimony.

7 Q Would you agree or accept subject to check that
8 the first time any Qwest witness in this docket ever
9 explicitly mentioned or addressed a new services test was
10 in your rebuttal testimony, which is Exhibit 222?

11 A Did I catch your entire question? Was your
12 question was that the first time that specific term was
13 mentioned in testimony?

14 Q In this docket, yes.

15 A That is correct.

16 MR. HARLOW: Your Honor, I would like to mark and
17 distribute an exhibit.

18 ALJ CROWLEY: Please.

19 MR. HARLOW: As soon as I find it. I would
20 request that this exhibit be identified as NWP 5.

21 ALJ CROWLEY: Done.

22 Q BY MR. HARLOW: Can you identify NWP 5 for the
23 record, please?

24 A Yes. This is a data request response to NWP
25 request 03-008.

1 Q And in it, the NWPA basically asked for a
2 projection of direct costs for PAL and other PTAS
3 services?

4 A That's correct.

5 Q And Qwest objected that it shouldn't have to do a
6 special study; is that correct?

7 A I believe Qwest's position was that that
8 information was supplied in Mr. Brigham's testimony.

9 Q Is there an objection in there about a special
10 study?

11 A Yes, there is.

12 Q Does that objection reflect that Qwest did not do
13 a special study for PAL?

14 MR. REICHMAN: Your Honor, I just want to object
15 on the terms of relevance. You'll note that this
16 exhibit -- I'm sorry. That this exhibit was received by
17 Mr. Harlow's law firm on June 23, 2000. The references in
18 this exhibit to testimony refer to the testimony filed in
19 November of 1999.

20 MR. HARLOW: Your Honor?

21 ALJ CROWLEY: Thank you.

22 MR. HARLOW: I'd like to note that all of our
23 data requests to Qwest included a preliminary direction
24 that the responses to data requests be updated to the time
25 of hearing.

1 ALJ CROWLEY: Thank you. I'll note both of your
2 comments.

3 MR. HARLOW: Thank you.

4 MR. REICHMAN: And the reason for my objection is
5 that it's primarily made clear that references to testimony
6 that are included herein are responses.

7 ALJ CROWLEY: I'll note the testimony is in
8 November of '99.

9 MR. HARLOW: We'll tie into the current exhibit,
10 Your Honor.

11 ALJ CROWLEY: Thank you.

12 MR. HARLOW: I just haven't gotten there yet.

13 Q BY MR. HARLOW: Mr. Teitzel, let me repeat the
14 question since you may not still have it in mind.

15 The question is, does the objection reflect that
16 Qwest did not, in fact, do a special study for PAL
17 service?

18 A The objection reflects that fact. And I believe
19 also fundamental to the objection was that PAL rates are in
20 effect in Oregon and have been in effect in Oregon and were
21 supported on a TSLRIC basis, as are all of our retail
22 prices.

23 Q And the PAL rates that were in effect had been
24 adopted prior to the passage of the Section 276 of the
25 Telecommunications Act; is that correct?

1 A I believe that's correct.

2 Q Did Qwest file a special study or new services
3 study between January and April of 1997?

4 MR. REICHMAN: In Oregon?

5 MR. HARLOW: In Oregon, yes.

6 THE WITNESS: To be frank, I don't know.

7 Q BY MR. HARLOW: Would you accept it subject to
8 check that Qwest did not?

9 MR. REICHMAN: Your Honor, I'm a little
10 uncomfortable with asking him to --

11 MR. HARLOW: I'll withdraw.

12 MR. REICHMAN: Thank you.

13 ALJ CROWLEY: Thank you.

14 Q BY MR. HARLOW: Now, the data request response in
15 NWPA Exhibit 5 refers to Exhibit 223.

16 Do you see that?

17 A Yes, I do.

18 Q And that was a cost study that had been filed at
19 the time of this response?

20 A I don't have that exhibit in front of me. I'm
21 not sure what precisely it referred to.

22 MR. HARLOW: May I approach, Your Honor?

23 ALJ CROWLEY: Go ahead.

24 Q BY MR. HARLOW: You have in front of you Exhibit
25 223?

1 A Yes, I do.

2 Q And you also have in front of you Exhibit 219?

3 A Yes, I do.

4 Q Has Exhibit 219 superseded Exhibit 223 as
5 referenced in the data request response?

6 A I believe it has.

7 Q So the cost support referenced in NWPA 5 would
8 now be found in Exhibit 219 -- Qwest Exhibit 219; is that
9 correct?

10 A That's my understanding.

11 Q Now, according to NWPA 5, Qwest provided no cost
12 support for line-side answer supervision or screening
13 service, originating line screening service; is that
14 correct?

15 A And it is correct because my recollection was
16 those prices were not changing.

17 MR. HARLOW: Your Honor, we offer NWPA 5.

18 ALJ CROWLEY: Any objections? It's admitted.

19 MR. REICHMAN: Well, we've -- I still have sort
20 of a relevance concern, given that it relates to withdrawn
21 testimony, but --

22 ALJ CROWLEY: I understand.

23 MR. REICHMAN: But with that noted --

24 ALJ CROWLEY: If it's not relevant, it won't be
25 relevant in making my decision. But it is admitted.

1 MR. HARLOW: Thank you.

2 Q BY MR. HARLOW: Do you recall a NWPA data request
3 asking for an estimate of tariff revenues and projections
4 of the effect on Qwest's overall traffic and revenues?

5 A I generally recall a request like that. Do we
6 have a specific data request in mind.

7 Q Data request number 9.

8 A I don't have a copy.

9 MR. REICHMAN: I would prefer you provide that to
10 the witness to refer to.

11 ALJ CROWLEY: Do you have a copy of that, Mr.
12 Harlow?

13 MR. HARLOW: I do, Your Honor.

14 Q BY MR. HARLOW: Do you have Qwest response to
15 NWPA data request number 9 in front of you?

16 A Yes, I do.

17 Q Okay. And the response referred to confidential
18 UT 125 work papers filed with deaveraging in April of 2000.

19 Do you see that?

20 A Yes, I do.

21 Q And, again, no revenue impacts would have been
22 provided by Qwest for line-side answering supervision or
23 originating line screening; is that correct?

24 A That's correct. As I said previously, this does
25 specify that U.S. West, now Qwest, is not proposing any

1 rate changing of this service. With that caveat, the
2 answer is yes.

3 MR. HARLOW: Okay. Your Honor, I'd like to
4 distribute our next exhibit, NWPA 6.

5 ALJ CROWLEY: All right.

6 Q BY MR. HARLOW: Can you identify NWPA 6, for the
7 record?

8 A Yes. This is a Qwest response to NWPA data
9 request 03-011.

10 Q And does this data request ask for an explanation
11 of the loading methodology above the direct costs used for
12 PAL and other services?

13 A Yes, it does.

14 Q And, again, Qwest objected to doing a special
15 study?

16 A That's correct.

17 Q The response indicates that Qwest added a, quote,
18 reasonable markup to the direct cost of the service; is
19 that correct?

20 A That is correct.

21 Q Please tell us what you mean by "reasonable
22 markup" as used in that data request response?

23 A I would offer a caveat to my response. I did not
24 prepare this request. It was prepared by another manager.
25 And when you ask what do you mean by this, are you asking

1 for my interpretation of what the respondent meant?

2 Q Let me withdraw that question and go back then
3 with that clarification you've made. Would you agree that
4 Qwest's proposed PAL prices -- or would you contend Qwest's
5 proposed PAL prices in this proceeding include a reasonable
6 markup to the direct cost of the service?

7 A Yes, I would.

8 Q Okay. Now, as you've just used it, what do you
9 mean by "reasonable markup"?

10 A A reasonable markup is a markup that Qwest has
11 proposed and has been approved by the Commission in the
12 past for retail services such as flat business lines, other
13 types of access lines, public access lines. It is a
14 reasonable markup in the context of a rate of return
15 regulated firm that recovers costs other than direct costs
16 of service.

17 Q Okay. Can you put a percentage or a specific
18 number on your definition of a reasonable markup?

19 A No.

20 Q At the time that this data request response was
21 made, NWPA 6, Qwest was recommending that the PAL rate be
22 set above the business rates; is that correct?

23 MR. REICHMAN: I'm going to object. I don't know
24 that he's established the time that this response was made.

25 ALJ CROWLEY: I don't see a date on this

1 response.

2 MR. HARLOW: If we refer back to Exhibit NWPA 5,
3 which is the same set, Number 3, that date stamp is June
4 23rd, 2000. So I represent to the Commission that we
5 received this on the same date as NWPA 5.

6 MR. REICHMAN: Your Honor, my records don't show
7 this as being part of the same set. But if you'll give me
8 one second, I may be able to confirm the date.

9 Okay. I would agree that this was served in June
10 of 2000.

11 ALJ CROWLEY: Thank you.

12 MR. HARLOW: Thank you, Mr. Reichman.

13 ALJ CROWLEY: Mr. Harlow?

14 Q BY MR. HARLOW: At the time of this response,
15 Qwest was proposing that PAL rate to be above equivalent
16 business rates; is that correct?

17 A That's correct.

18 Q Have the direct costs -- well, first of all, now
19 you're recommending the rates be set at the parity with
20 business rates; is that correct?

21 A That's also correct.

22 Q Have the direct costs of the PAL service changed
23 at all in relation to the equivalent business services
24 between June of 2000 and today?

25 MR. REICHMAN: I also object to the extent that

1 Mr. Teitzel is not a witness on the costs and that I don't
2 know if that's covered in his testimony.

3 MR. HARLOW: Your Honor, Mr. Teitzel in his
4 testimony on PAL services attempts to justify a proposed
5 PAL rate based on the underlying costs. And so he clearly
6 has to have some conversency with the costs.

7 ALJ CROWLEY: I agree with Mr. Harlow. Go ahead.

8 MR. REICHMAN: I would just like to note that he
9 is basing that on the costs that have been approved by the
10 Commission in UM 733 and prices set in UM 844 and not an
11 independent review of costs.

12 ALJ CROWLEY: Thank you for the elaboration.

13 Q BY MR. HARLOW: Do you recall the question?

14 A I believe I do generally. I'm not certain
15 whether there have been specific cost studies done to
16 review the extent to which costs may have changed over the
17 period of this case, which has been a multi-year case.

18 But I would testify that the testimony I'm
19 sponsoring and supporting in this case does rely upon the
20 costs that were expressed by Mr. Brigham, as we discussed
21 earlier, in his Exhibit 219.

22 Q Do you understand that the Exhibit 219 costs show
23 the same costs for most of the elements of PAL service as
24 for equivalent business service?

25 A The services are very similar, so that doesn't

1 surprise me.

2 Q And so they would have, for example, the
3 identical NAC cost?

4 A Yes.

5 Q And they would have identical costs for port and
6 usage and so forth?

7 A Without looking back specifically in the study, I
8 can't recall if the usage costs were the same or not. I
9 believe there are some slight usage variances between PAL
10 services and flat business services.

11 Q Would those usage variances be sufficient to
12 explain that change in the recommendation between the
13 November, '99 testimony and the November, 2000 testimony as
14 to the PAL price?

15 A I can't recall the magnitude of the variation.
16 It's slight.

17 Q Would you agree that the difference in pricing
18 basically -- the different pricing recommendation between
19 higher than business service and parity with business
20 service is based in that change on the markup primarily
21 rather than a change in the direct cost?

22 A I think -- again, these cases span several
23 years. And I believe that there's been a change not
24 necessarily in the way costs are reviewed and looked at but
25 more in the way prices for comparable services are looked

1 at.

2 As I said previously, the Commission ruled in UT
3 85 that the measured PAL rate should mirror the business
4 measured PAL rate. So I believe from a pricing
5 perspective, PAL should be consistent to the line, both
6 measured and a flat.

7 Q So, in other words, you're effectively
8 recommending a reduction in the contribution of PAL
9 service?

10 A To the extent that costs remain the same, that
11 would be true. As I said, I'm not sure whether studies
12 were done to review the extent to which costs may have
13 changed during that period.

14 MR. HARLOW: Your Honor, I'd like to offer NWPA
15 6.

16 ALJ CROWLEY: Any objections?

17 MR. REICHMAN: No objection

18 ALJ CROWLEY: Thank you. It's admitted.

19 MR. HARLOW: Your Honor, I'd like to distribute
20 the next exhibit.

21 ALJ CROWLEY: Yes.

22 MR. HARLOW: NWPA 7. Are you beginning to look
23 for a convenient time for a break, Your Honor? Or do you
24 want to continue for a while longer?

25 ALJ CROWLEY: I'm fine I think.

1 MR. HARLOW: Okay. Just let me know.

2 ALJ CROWLEY: If the parties would like a break
3 or the reporter needs a break, please chime in.

4 Q BY MR. HARLOW: Okay. Can you identify NWPA 7?

5 A Yes. This is a Qwest response to NWPA data
6 request 04-039.

7 Q And, again, the NWPA requested Qwest's
8 methodology employed to determine a reasonable markup.

9 Do you see that?

10 A Yes, I do.

11 MR. HARLOW: Your Honor, we offer Exhibit 7.

12 ALJ CROWLEY: Any objection?

13 MR. REICHMAN: No objection.

14 ALJ CROWLEY: It's admitted.

15 Q BY MR. HARLOW: If you -- let's see.

16 MR. REICHMAN: Excuse me. I don't have an
17 objection, but I would appreciate clarification. If you
18 can clarify the date of this response.

19 MR. HARLOW: July 19, 2000 is what we show.

20 MR. REICHMAN: 2000?

21 MR. HARLOW: Yes.

22 MR. REICHMAN: So I would again just note for the
23 record that this was served, based upon the testimony
24 filed, in November of '99.

25 ALJ CROWLEY: Yes.

1 Q BY MR. HARLOW: With that notation, I would like
2 to ask a follow up, Mr. Teitzel.

3 Is there anything that you would disagree with in
4 this methodology set forth in NWPA Exhibit 7?

5 A I believe this response was relative to the
6 pricing proposal in that original 1999 testimony. As I
7 said, this has been a case that's transpired over several
8 years. It's evolved. And, in fact, the case now is based
9 on price changes that took effect in the universal service
10 filing which modified the prices once again.

11 So with that caveat, this response would be
12 applicable to the original 1999 filing.

13 Q Thank you, Mr. Teitzel.

14 MR. HARLOW: Your Honor, may I approach the
15 witness?

16 ALJ CROWLEY: Yes.

17 MR. HARLOW: With a data request response.

18 MR. REICHMAN: Identify that exhibit, please.

19 MR. HARLOW: 212.

20 Q BY MR. HARLOW: Mr. Teitzel, I've handed you
21 Qwest data request response to -- excuse me. To data
22 request NWPA request 3 -- excuse me. 312.

23 Have you had a chance to look at it?

24 ALJ CROWLEY: Would you give me that number
25 again?

1 MR. HARLOW: 03-012.

2 ALJ CROWLEY: Thank you.

3 THE WITNESS: Yes, I have reviewed this.

4 Q BY MR. HARLOW: And do you recall that the
5 Northwest Payphone Association asked Qwest to state whether
6 it had filed a cost study, supporting materials and work
7 papers consistent with -- and I'll just dispose of the cite
8 and just refer to the new services test. Is that correct?

9 A That is correct.

10 Q And the response referred --

11 MR. REICHMAN: Excuse me. Are you planning to
12 offer this as an exhibit?

13 MR. HARLOW: No, I hadn't.

14 MR. REICHMAN: Okay. Because this does not say
15 the new service test. And I'd just appreciate it if you
16 could stick with the exact language in here.

17 MR. HARLOW: Right. It referred to the
18 requirements of 47 CFR, Section 61.49(g) and the amendments
19 of part 690 of the Commission's rules relating to the
20 creation of access charged sub elements for open network
21 architecture, CC Docket Number 89-79, 6 FCC record. 4224,
22 4531 (1991). And then parens, hereinafter ONA order
23 paragraphs 38 to 44.

24 MR. REICHMAN: Thank you.

25 MR. HARLOW: And the response referred back to

1 the response to Qwest's response to Northwest Payphone data
2 request 03-008; is that correct?

3 A That's correct.

4 Q And that response has since been marked NWPA
5 Exhibit 5; is that correct?

6 A My copy is not marked, to be honest with you.

7 Q And there's no additional information -- oh, your
8 copy is not marked?

9 A It is not.

10 Q All right. Well, I think we've got it for the
11 record.

12 But in data request response 03-012, there's no
13 substantive response whatsoever; there's simply the
14 reference to the earlier data request number 8?

15 MR. REICHMAN: I object to the characterization
16 "there's no substantive response" or whatever.

17 ALJ CROWLEY: Would you rephrase your question to
18 omit that term, please.

19 MR. HARLOW: Certainly. I should probably just
20 make it an exhibit. But I don't have a photocopier handy.

21 ALJ CROWLEY: If you want to do that, Mr. Harlow,
22 there is a photocopier upstairs in the Hearings Division.

23 MR. HARLOW: I think it would probably just save
24 us time if we just ask a question or two.

25 ALJ CROWLEY: Go ahead.

1 MR. HARLOW: Thank you.

2 Q BY MR. HARLOW: The response is broken down into
3 five sub parts, A through E. Do you see that?

4 A Yes, I do.

5 Q And each one says, "See response to NWPA
6 03-008." And then the corresponding sub paragraph number.

7 A That's correct.

8 Q And then it identifies the respondent.

9 A That's also correct.

10 Q And that's the total of the response; is that
11 correct?

12 A Yes. It refers back to NWPA 03-008. And those
13 responses were provided.

14 MR. HARLOW: Your Honor, I have the next exhibit
15 for distribution.

16 ALJ CROWLEY: Okay. We'll mark this NWPA 8.

17 Q BY MR. HARLOW: Mr. Teitzel, I see you have a pen
18 up there. I would ask that you mark these exhibits as I
19 hand them out since there may be other occasions when I
20 want to ask you to refer back to them.

21 A Fair enough.

22 Q Okay. So that should be marked NWPA 8.

23 A I have that.

24 Q Thank you, Mr. Teitzel. Can you identify NWPA 8,
25 please?

1 A Yes. NWPA 8 is a Qwest response to NWPA data
2 request 04-037.

3 Q And in it would it be a fair characterization
4 that Qwest responded that the SLC and PICC and access
5 revenues in universal service revenues were not relevant?

6 A Let me read the response in its entirety for a
7 moment. If I could read the last sentence briefly.

8 Q Sure.

9 A It says, "The proposed price changes for basic
10 PAL, Smart PAL and extended area service will not impact
11 the revenues for SLC, PICC, access revenues, and universal
12 service; therefore, are not relevant to this proceeding."

13 I think the proceeding that was referenced there
14 was the UT 125 proceeding.

15 Q First of all, let's clarify that SLC, would you
16 agree that stands for subscriber line charge?

17 A SLC stands for subscriber line charge. It's also
18 known as the CALC or the EUCL. We talked about those terms
19 earlier.

20 Q Thank you. And would you agree that each PAL
21 line Qwest sells causes Qwest to additionally charge and
22 presumably receive the SLC or EUCL rate and the PICC rate?

23 A I would agree with that.

24 MR. HARLOW: Your Honor, we would offer NWPA 8.

25 MR. REICHMAN: No objection.

1 ALJ CROWLEY: Do you have a date for that?

2 MR. HARLOW: I think it's the same date. July
3 19, 2000.

4 ALJ CROWLEY: Thank you. Mr. Reichman, did I
5 hear you?

6 MR. REICHMAN: No objection.

7 ALJ CROWLEY: Thank you. It's admitted.

8 MR. HARLOW: And I have Exhibit 9 to distribute,
9 Your Honor.

10 ALJ CROWLEY: All right.

11 Q BY MR. HARLOW: Can you identify Exhibit NWPA 9
12 for the record, please?

13 A Yes. This is Qwest's response to NWPA data
14 request 04-040.

15 Q I would like to ask you what I hope to be a
16 simple question. And I understand you have qualifications
17 in the exhibit. You may wish to add some.

18 But is the answer to the question that's stated
19 in there no?

20 MR. REICHMAN: Your Honor, I think the exhibit
21 speaks for itself. I object to the question. I don't see
22 the word "no" anywhere in the answer.

23 MR. HARLOW: Well, Your Honor, that's why I would
24 like to make this an exhibit and pose the question now. We
25 don't think we have a responsive answer. And we want him

1 to read the question and then answer yes or no and then
2 whatever qualifications that the witness wishes to make.

3 MR. REICHMAN: And we object to --

4 ALJ CROWLEY: Yes. I'd like a clear question on
5 the record to which you're requesting the answer no.

6 MR. HARLOW: All right. I'll read the question.
7 And since it's lengthy, you may wish to follow along. It
8 starts in the second line.

9 "Please admit that U.S. West has not filed a cost
10 study, supporting materials and work papers, and
11 explanations consistent with the requirements of 47 CFR
12 Section 61.49(g)." "Arid" appears to be a typo. It means
13 also known. Oh, excuse me. It should be "and". "And the
14 ONA order at paragraphs 38 through 44 with the Oregon PUC."

15 MR. REICHMAN: And, Your Honor --

16 Q BY MR. HARLOW: And that's the question I'm
17 posing to you at this time.

18 MR. REICHMAN: Your Honor, we object to the
19 question. It's been answered in this discovery response.
20 If Mr. Harlow did not feel that answer was responsive, he
21 could have filed a motion to compel. And he did not.

22 And I just don't think that -- this witness did
23 not answer the question either as the respondent. And we
24 just object to his asking the question again. He has his
25 answer.

1 ALJ CROWLEY: Is it your position that this
2 answer is not clear?

3 MR. HARLOW: Yes. And I'm essentially restating
4 the question as cross examination of this witness. And at
5 this point --

6 ALJ CROWLEY: I'm going to allow the question.

7 THE WITNESS: Could you repeat the question,
8 please?

9 Q BY MR. HARLOW: Well, just reread it. It's the
10 second sentence.

11 A Would you like me to respond to the question as
12 it's written?

13 Q It starts out "please" and ends "PUC".

14 A I'm not -- again, I'm not --

15 MR. REICHMAN: I just want to make clear, he's
16 asking you the question that is the second sentence in the
17 data request here.

18 MR. HARLOW: That's the question.

19 MR. REICHMAN: He's asking you that as a
20 question.

21 THE WITNESS: It's a compound question. And I'm
22 struggling with the yes or no answer.

23 I testified earlier that we have supplied TSLRIC
24 cost in this docket. I think I testified earlier that my
25 testimony and exhibits to my testimony supply revenues

1 impacts to the prices we are changing. I think I've also
2 testified that PAL prices are above TSLRIC and also we
3 believe PAL prices include a reasonable contribution to the
4 cost of running this business.

5 So I believe my answer, as I sit here today,
6 would be that, yes, that we have supplied those things to
7 you now. Way in the past when this response was put
8 together -- again, I'm not the respondent, I'm not sure
9 what was in the respondent's mind as she wrote this
10 response.

11 I'm also not sure, as I'm not an attorney, the
12 extent to which the new services test is or is not
13 incorporated in the Oregon Commission rules in this state.

14 Q Okay. Let's take it from the top, if you will.
15 First of all, you've mentioned several things that you
16 filed. You mentioned TSLRIC cost.

17 Would that basically be Qwest Exhibit 219?

18 A Yes, it would be.

19 Q And what about the revenue impacts, what exhibit
20 would that be?

21 A That would be in my direct testimony. And I
22 believe that is in Qwest 201.

23 Q Okay. And then you mentioned the prices were
24 above the price floor, but I didn't hear any other filing.

25 Is there any other filing you would like to cite

1 as having been filed in compliance with these cited CFR and
2 the ONA order?

3 A I believe I mentioned also that there was a
4 filing in this intervening period since this case has been
5 pending for end universal service in which prices for
6 business basic exchange and PAL rates were reduced and also
7 the average rate 3 zones. So that also incorporated
8 revenue effects of that change in that filing.

9 Q Is that an exhibit in this proceeding?

10 A I'm not certain whether it is or is not.

11 Q All right. Let's come back to the final sentence
12 which you also mention in your answer. And that is the
13 question in your mind of whether or not Oregon has adopted
14 the new services test.

15 Do you recall that?

16 A That's not precisely what I said, as I recall. I
17 said I'm not sure the extent to which the new services test
18 has been incorporated into any Oregon rules or statutes.

19 Q Is it your understanding that Oregon must act
20 affirmatively to incorporate the new services test with
21 regard to PAL services for them to be binding on this
22 Commission?

23 MR. REICHMAN: Object to the question. That
24 calls for a legal conclusion.

25 ALJ CROWLEY: And that since the witness is not a

1 lawyer, you can ask for his opinion.

2 MR. HARLOW: I'm asking his understanding. Is it
3 allowed to that extent, Your Honor?

4 ALJ CROWLEY: Yes.

5 MR. HARLOW: Thank you.

6 THE WITNESS: I believe I testified earlier that
7 I believe, Qwest believes, that its pricing proposals for
8 PAL service comply with the new services test. As I said
9 earlier, I'm not an attorney and I can't offer an opinion
10 as to the extent to which Oregon rules have been appended
11 or modified to reflect the new services test.

12 Q BY MR. HARLOW: Who developed the PAL rates that
13 you're proposing and sponsoring? Did you actually develop
14 them yourself?

15 A I did not.

16 Q Do you know who did?

17 A I do.

18 Q That would be Mr. Olson?

19 A I believe Mr. Olson had input into the PAL
20 pricing. I believe Carol McGuane, who is listed as a
21 respondent in several of these data requests, was also
22 involved in setting those prices.

23 Q And Mr. Olson's first name is Brad?

24 A It is.

25 Q And did you ever discuss the new services test

1 with any of those people?

2 A I did.

3 Q And when did that discussion first occur?

4 A I can't recall the specific dates. If you're
5 asking for approximate range of time, I could probably
6 offer that.

7 Q Yes, please.

8 A I believe the first discussion would have been in
9 late 1999 or early 2000.

10 Q Would it have been before or after you filed --
11 you prefiled the November 15, '99 testimony that hasn't
12 been admitted in this proceeding?

13 A It would have been around that time frame. I
14 can't testify explicitly whether it was slightly before or
15 slightly after. But it was in that general time frame.

16 Q Now, can we agree that the UM 773 costs are a
17 reasonable approximation of direct costs as you understand
18 that term under the new services test?

19 MR. REICHMAN: Your Honor, I'm going to object
20 again to the extent that this is not Qwest's offered expert
21 on costs.

22 ALJ CROWLEY: I will note your objection. Go
23 ahead with your question, please.

24 Q BY MR. HARLOW: Would you agree with that
25 characterization?

1 A I believe they're an approximation. And based
2 upon our TSLRIC, or total service long run incremental
3 costs, which I believe are known as direct costs or are
4 referred to as direct costs.

5 Q So basically the difference that the company
6 has -- that Qwest has with the Northwest Payphone
7 Association is over the markup question; is that correct?

8 A I would prefer to use the term "contribution",
9 which I believe is correct. I believe the difference in
10 opinion does center on contribution.

11 MR. HARLOW: Your Honor, this would be a good
12 time to take a morning break, if that would be acceptable.

13 ALJ CROWLEY: All right.

14 (Recess taken)

15 ALJ CROWLEY: Mr. Harlow?

16 MR. HARLOW: Thank you, Your Honor. As a
17 preliminary, we offer NWPA 9.

18 ALJ CROWLEY: Any objections? It's admitted.

19 MR. HARLOW: And I would like to distribute NWPA
20 Exhibit 10 at this time.

21 ALJ CROWLEY: All right.

22 Q BY MR. HARLOW: Can you identify Exhibit NWPA 10
23 for the record, please?

24 A Yes. This exhibit is Qwest response to NWPA data
25 request 05-053.

1 MR. HARLOW: Your Honor, we offer NWPA
2 Exhibit 10.

3 ALJ CROWLEY: Any objection?

4 MR. REICHMAN: In fact, I have one. May I have
5 just a minute?

6 ALJ CROWLEY: Yes.

7 MR. REICHMAN: No objection.

8 ALJ CROWLEY: It's admitted.

9 MR. HARLOW: And I will distribute 11.

10 Q BY MR. HARLOW: Mr. Teitzel, can you identify
11 NWPA 11?

12 A Yes. This exhibit is Qwest's response to NWPA
13 data request 05-050.

14 Q And this is a data request response that you
15 prepared; is that correct?

16 A Yes, it is.

17 Q And this data request response explains your
18 basis for determining the level of contribution for PAL
19 services; is that correct?

20 A Give me a moment to reread the response, if I
21 could.

22 Yes, I've read that.

23 Q Okay. I'm focusing in particular on the sentence
24 about six lines down, the response that starts out "so
25 long".

1 And basically are you saying here that the market
2 constrains Qwest's ability to obtain contribution for PAL
3 services?

4 MR. REICHMAN: Your Honor, I object to just
5 taking one sentence out of context. The answer, obviously,
6 is more complete. And it says what it says.

7 So to the extent he's intending to characterize
8 the entire answer, I would object to that, to the extent
9 that he's asking about that one sentence.

10 ALJ CROWLEY: I think it's permissible to ask
11 about -- this was prepared by Mr. Teitzel and it's
12 permissible to inquire into it.

13 MR. HARLOW: Thank you, Your Honor.

14 Q BY MR. HARLOW: Do you have the question in mind,
15 Mr. Teitzel?

16 A Could you repeat it, please?

17 Q Okay. The sentence that starts out "so long as",
18 is the thrust of that sentence and your intent there that
19 Qwest's ability to obtain contribution for PAL services is
20 constrained by the market?

21 A Fundamental to my response is that the market is
22 a driver, a determinant, of pricing. But within that
23 context, Qwest is still a regulated telephone company in
24 Oregon. So I would offer also that regulation plays a
25 significant part in the level of prices Qwest can offer in

1 the marketplace.

2 If we set a price and the Commission concurs that
3 the price should be set at a particular level that the
4 market doesn't think is appropriate, the customers won't
5 buy that service.

6 Q So is your recommendation for the amount of
7 contribution that the Commission should allow in this
8 proceeding based on your perception of the market for
9 payphone access line service?

10 A No. I don't believe I said that at all. I
11 believe I stated that PAL services, public access line
12 services, are essentially the same service as a business
13 access line.

14 Q Do you --

15 A Qwest has proposed prices, and the Commission
16 will determine if those prices are reasonable based on a
17 variety of factors. If those prices are reasonable, which
18 include a level of contribution, they're reasonable for
19 both services.

20 Q Do you think the market establishes the
21 appropriate level of contribution for business services in
22 Oregon?

23 A I think in part, in large part, the market drives
24 those services. And that will become increasingly true
25 over time as competition continues to grow in this state.

1 Q Now, further on down -- actually, the next
2 sentence. It says, "If the prices for particular services
3 are too high, customers will simply curtail purchasing
4 these services."

5 Do you see that?

6 A Yes, I do.

7 Q So does that mean that if the Commission were to
8 set PAL rates too high, your belief is that the payphone
9 service providers will drop their service?

10 A I believe in the context of my answer it was
11 focusing in on the retail pricing as a general term of art,
12 not specifically on PAL pricing. But I do believe that if
13 PAL prices were set so high that PAL providers thought they
14 weren't reasonable, they may curtail purchasing of that
15 service, as would any other retail customer.

16 Q Would you agree hypothetically that if the
17 payphone provider decided to curtail its PAL service, that
18 it would no longer be able to operate that particular
19 payphone, or if any payphone decided to curtail the PAL
20 service?

21 A I'm sorry. Are you asking me if a PAL provider
22 decided to curtail purchase of a particular PAL line at a
23 location?

24 Q Yes. It would have to pull the payphone, would
25 it not?

1 A If the PAL service were not available, there
2 would be no access line to provide that local exchange
3 service. So, yes, I would agree that service wouldn't be
4 available at that location.

5 Q Now, would a business, other than -- let's say a
6 convenience store had decided to curtail its purchase of
7 business service, would it necessarily have to stop
8 operating its business at that location if it curtailed one
9 or more of its business lines?

10 A I would respond to that by saying it would likely
11 change the way the business may be operating at that
12 location, but not necessarily curtail business entirely.

13 Q And if you refer to the last -- the second
14 paragraph in the response contained in NWPA 11. Take a
15 look at your allegation that PAL services is a retail
16 service essentially identical to business based exchanged
17 service.

18 Do you have that in mind?

19 A Yes. I wouldn't characterize this as an
20 allegation. It's a statement. And I believe it's a fact.

21 Q I'll accept that. Do most retail businesses --
22 excuse me. Do most retail business customers of Qwest
23 compete directly with Qwest?

24 A I would say the answer would be no, most do not.

25 Q Would you agree that all PAL customers other than

1 Qwest payphone division compete directly with Qwest in the
2 provision of payphone services?

3 A I think it's fair to say that they compete with
4 Qwest's payphone division and each other.

5 Q Now, PAL service is also essentially identical to
6 residential service, is it not?

7 A I don't believe that's true.

8 Q All right. Well, let me clarify the question.
9 If you put aside the attributes of the customer, and for
10 the moment let's put aside the usage cost, would you agree
11 that PAL service is essentially identical to residential
12 service?

13 A Essentially identical. Again, that's a difficult
14 question for me to answer. Residential service has been
15 established and price of the service, for a variety of
16 social and regulatory purposes, are entirely separate and
17 distinct from PAL service. This is more directly
18 comparable with the business flat service.

19 Q Are you familiar with the term "POTS", an acronym
20 for plain old telephone service?

21 A Yes, I am.

22 Q And the residential customer receives POT
23 service?

24 A Yes, it does.

25 Q A basic PAL customer, not the Smart PAL customer,

1 but the basic PAL customer receives POT service as well,
2 does it not?

3 A Once again, I would digress a little bit here by
4 saying that residential and business services are not the
5 same service. They are distinct. They are services
6 provided to different types of customers entirely.

7 Q Okay.

8 A They're priced for entirely different purposes.

9 Q I understand the pricing is different and I
10 understand the customer is different. But what about the
11 underlying service, can you identify any differences in the
12 underlying technical attributes of the service between
13 PAL -- basic PAL and residential?

14 A Again, I don't have the specifics on usage
15 patterns in front of me. But my recollection is that PAL
16 usage is much more comparable to a business access line, a
17 flat business access line, than it is to a residential
18 access line. So on usage basis, there's a difference.

19 I believe there also is some slight cost
20 differences in the loop that are fundamental to that
21 service.

22 Q I'm going to ask you to turn back to Exhibit 219,
23 please. That's Qwest's exhibit.

24 A I have that.

25 Q I need to be mindful that some of the data on

1 this exhibit is confidential. But if you would, please,
2 the first page shows an imputed price floor for residence
3 basic flat service.

4 Do you see that?

5 A Yes, I do.

6 Q And it shows an imputed price floor for public
7 access line flat rate.

8 Do you see that?

9 A I see a difference in that price floor, yes.

10 MR. HARLOW: And can we state the difference
11 rounded up to the nearest dollar without having
12 confidentiality concerns?

13 MR. REICHMAN: Give me one second. That's fine.

14 Q BY MR. HARLOW: Would you agree that this shows
15 that the cost of PAL service rounded to the nearest dollar
16 is within a dollar of the cost of residential basic flat
17 rated service?

18 A I would agree with that.

19 Q Now, are these proposed prices still Qwest's
20 proposed prices for these services?

21 A I'm not certain. On March 19th we submitted a
22 modification in our pricing proposal that reflect the
23 changes in the Centrex Plus pricing, as you may recall.
24 And those changes have repercussions to business and PAL
25 prices as well. I have that letter with me. Let me just

1 verify.

2 MR. REICHMAN: I would also interject, Your
3 Honor. I think that the proposed prices have changed as a
4 result of the universal service filing that's been
5 referenced.

6 MR. HARLOW: If you can give him those prices, I
7 would like to put them on the record at this point.

8 MR. REICHMAN: Your Honor, I'd also just note for
9 the record that what's reflected in here as proposed
10 prices -- let me start by saying that this document is
11 prepared for purposes of an imputation analysis.

12 And what's reflected in the line as proposed
13 prices as it's shown later in the exhibit that Mr. Harlow
14 referred to before are some other charges, including the
15 CALC number.

16 So this is not the price that Qwest proposes for
17 the service by itself.

18 ALJ CROWLEY: Thank you.

19 Q BY MR. HARLOW: Okay. Do you have in front of
20 you the proposed prices for residence basic flat and PAL
21 access line flat, the most recent Qwest?

22 A Yes. With the caveat that Mr. Reichman just
23 offered, I've got the price for the element, the service
24 element itself, not necessarily corresponding to the price
25 that was developed here. But I can offer that if you'd

1 like.

2 Q Yes. Please state those prices for the record.

3 A The proposed -- I'm sorry. Are you asking for
4 residential flat?

5 Q Yes.

6 A And PAL flat. The proposed deaveraged price for
7 PAL flat in rate group 1 as modified on March 19th in Mr.
8 Reichman's letter of this year, is 26.20. And in rate
9 group 2 it is 28.70. And in rate group 3 it is 30.70,
10 exclusive of CALC and any other additives.

11 Now, residential prices did not change. These
12 were adjustments only to business rates. And let me see if
13 residence pricing is in here. No. These spreadsheets only
14 reflected the changes that occurred on that date. I don't
15 have the residential prices in this document. But there
16 were no changes in those prices from those that I proposed
17 in my testimony that we discussed earlier.

18 Q So are the prices on the first page of the
19 Exhibit 219 still the proposed prices for residence basic
20 flat?

21 MR. REICHMAN: Your Honor, I've already noted
22 that these include CALC. So these, obviously, are not.
23 Mr. Teitzel probably knows what those prices are, however,
24 without CALC.

25 THE WITNESS: I do have the proposed prices

1 exclusive of CALC and their additives in my Exhibit Qwest
2 202. Would you like those numbers?

3 Q BY MR. HARLOW: Yes, please.

4 A The flat residential rate in rate group 1 is
5 proposed be 13.80. In rate group 2 it is proposed to be
6 14.80. And rate group 3 is proposed to be 15.80.

7 Q And in Exhibit 219, is the reason that CALC is
8 included is because Qwest -- excuse me. It's included in
9 the proposed price is because Qwest is doing a price floor
10 test looking at not just the state tariff revenues but also
11 the federally tariffed revenues, in this case CALC?

12 A Yes, it's looking at all charges that would be
13 applicable to a particular service that the customer must
14 pay.

15 Q Do all the proposed prices, when you add the CALC
16 at least for the residence basic flat service, cover the
17 imputed price floor as shown on the first page of Exhibit
18 219?

19 A No. Not in each case. They do in rate group 1,
20 but not in rate group 2 or 3.

21 Q All right. Let's just focus on rate group 1.
22 And take a look at the markup, if you will, of residence
23 flat over the imputed price floor compared to the markup of
24 PAL access line flat over the imputed price floor.

25 MR. REICHMAN: I object to the use of the term

1 "markup". I don't think it's been established that that is
2 how these prices were set, by use of a "markup".

3 MR. HARLOW: Well, we can use the term
4 "contribution" if Mr. Teitzel is more comfortable with
5 that.

6 ALJ CROWLEY: Is that -- are you amenable to
7 that?

8 THE WITNESS: Contribution I think is the term
9 I've used previously today. I think I'm fine with that
10 term.

11 ALJ CROWLEY: Thank you.

12 Q BY MR. HARLOW: Okay. And you see that they're
13 different between residence flat and public access line
14 flat; is that correct?

15 A I'm struggling a little bit because the numbers
16 on Qwest 219 are on a different basis than the numbers I
17 read in terms of the current flat PAL rates.

18 Q I'm not looking for exact numbers because of the
19 confidentiality concerns. I'm just trying to establish
20 that they provide different contributions according to this
21 proposal.

22 A That's correct.

23 Q Indeed, the contributions proposed for PAL is
24 higher than the contributions proposed for residence?

25 A And I would add the contribution for flat

1 business is also higher than for flat residence.

2 Q And we could calculate that difference in
3 contribution on a percentage basis using the numbers on
4 Exhibit 219?

5 A I think I testified that the prices that are
6 assumed on Exhibit 219 were not changed in this March 19th
7 filing for residence service, but they were for business
8 services.

9 Q So we'd have to substitute the new price plus the
10 current EUCL in order to make that calculation; substitute
11 it for the numbers shown in the proposed price column in
12 Exhibit 219?

13 A Then the calculation can be done.

14 Q Thank you. Why is Qwest proposing so much less
15 contribution from residential service than from PAL service
16 in this docket?

17 A Qwest has been a rated return regulated firm.
18 And I would say that its residential prices are probably
19 the most scrutinized and heavily regulated service we
20 offer. Prices have been held relatively low for a long
21 period of time for societal reasons that are completely
22 separate and distinct from services like business retail
23 services, for example, or public access line services.

24 Q Describe briefly what you mean by "societal
25 reasons".

1 A I think there's been an objective to keep prices
2 at low levels to ensure that penetration rates of
3 residential access line services are high in the state of
4 Oregon.

5 Q So it would be fair to say that your
6 understanding of the public policy of the State Commission
7 is that residential rates should be kept as low as possible
8 so that as many residences as possible will purchase the
9 service?

10 A I think the policy has been exactly that over
11 time. I would add to that by saying that the policy
12 probably is shifting as competition enters the
13 marketplace. And over time the competitive alternatives
14 will take the place of the need to keep prices suppressed
15 through regulation.

16 Q And is that concept sometimes referred to as
17 universal service?

18 A Yes.

19 Q Now, in spite of that policy, it's true, is it
20 not, that there's a certain percentage of residences in
21 Qwest's territory in Oregon or in Oregon generally that do
22 not have residential telephone service; is that correct?

23 A I don't recall the precise number, but I'm sure
24 it is true that some customers don't have telephone
25 service.

1 Q Do we know if it's in the range of maybe five
2 percent or so?

3 A If it were as high as five percent I would be
4 surprised, but it is a small percentage.

5 Q And would it be your -- would you agree that that
6 small percentage of residential customers may rely on
7 payphone service in order to meet their communications
8 needs?

9 A I wouldn't dispute that some customers do elect
10 to use payphone services to meet their calling needs. But
11 I would also say that if consumers have portability issues
12 by being impoverished or low income brackets, there is
13 support available to those customers today.

14 Q Going back to your NWPA 11 and the statement
15 about curtailing service, if the contribution is too high,
16 is another option that the payphone provider could try to
17 raise its rates, its payphone rates, to cover the higher
18 cost of the PTAS service?

19 A I think that would be an option available to the
20 payphone providers.

21 A Q Are you aware that Qwest announced a few
22 weeks ago it was raising its local cent paid, in other
23 words, the coin rate, for payphone local calls from 35
24 cents to 50 cents in all 14 states?

25 A I did see that announcement.

1 Q And did you see that the announcement stated that
2 that increase was necessary to cover the costs of providing
3 payphone service?

4 A I don't recall that specific rationale being
5 given, but I would accept that.

6 Q And would you agree that this rate increase is
7 likely to drive a certain amount of calling traffic to the
8 option of cellular telephones?

9 MR. REICHMAN: I object to that. That calls for
10 speculation.

11 ALJ CROWLEY: I agree. Overruled. I mean
12 sustained. I'm sorry.

13 MR. HARLOW: Okay.

14 Q BY MR. HARLOW: Let's talk briefly about the
15 Wisconsin order that's referenced in Mr. Wood -- in your
16 testimony. And just so we have a context here, that's an
17 order issued by the Common Carrier Bureau of the FCC; is
18 that your understanding?

19 A That's my understanding.

20 Q If the Wisconsin order were not overturned, or
21 perhaps it's overturned later, but in the meantime the
22 Oregon PUC were to follow the methodologies set forth in
23 the Wisconsin order, what would the PAL rate be in this
24 docket?

25 MR. REICHMAN: I object to that. It calls for a

1 legal conclusion or opinion.

2 ALJ CROWLEY: With the caveat that this witness
3 is not a lawyer, go ahead.

4 THE WITNESS: There is a large presumption in
5 that question. I think I testified in my testimony that
6 we're not at all sure that order will stand up.

7 But with that caveat, I would say that the price
8 would be lower than the flat business price we proposed
9 here in this docket.

10 Q BY MR. HARLOW: Would you agree that it would be,
11 in fact, set at the -- what's been referred to in Exhibit
12 219 as the UM 773 unit costs? Excuse me. The imputed
13 price floor column?

14 MR. REICHMAN: I hope that's a clarification
15 because that's based on UM 844 rates, the imputed --

16 MR. HARLOW: Yes, that's a clarification.

17 ALJ CROWLEY: I'm sorry. UM 844 or UM 773?

18 MR. HARLOW: Let me start the question over so we
19 aren't confused.

20 ALJ CROWLEY: Please.

21 Q BY MR. HARLOW: Would you agree that under the
22 Wisconsin order as you understand it, if it were upheld or
23 if it were followed by the PUC, the PAL rate that would be
24 set here would be the imputed price floor as set forth in
25 Exhibit 219?

1 MR. REICHMAN: I have the same objection. This
2 answer calls for a legal conclusion.

3 ALJ CROWLEY: I note your objection. Allow the
4 question.

5 THE WITNESS: And with that caveat, I would say
6 my understanding is the FCC has interpreted Section 276 as
7 not being driven by Sections 251 or 252 of the act as they
8 relate to wholesale service pricing or UNE pricing. I
9 don't think a PAL service is a UNE. I'm not sure the
10 Commission has ruled in that way in Wisconsin or any other
11 state.

12 So I'm not sure what the price would be at this
13 imputed price floor which presumes UNE type pricing or
14 not. Again, I'm not an attorney. That is my opinion.

15 MR. HARLOW: Your Honor, I'd like to approach the
16 witness with a page from FCC Order FCC 96-439.

17 ALJ CROWLEY: All right.

18 MR. HARLOW: And I have a copy for counsel.

19 MR. REICHMAN: Did you say you did or you don't?

20 MR. HARLOW: I do.

21 MR. REICHMAN: Thank you.

22 MR. HARLOW: I don't have one for the Bench, but
23 we'll read it in.

24 ALJ CROWLEY: All right.

25 MR. HARLOW: I believe we've referred to this as

1 the Reconsideration Order in Mr. Wood's testimony. And the
2 FCC docket number is CC Docket Number 96-128. And the
3 order was adopted and released on November 8th, 1996.

4 Q BY MR. HARLOW: Have you had an opportunity to
5 look at this order in the past, Mr. Teitzel?

6 A I have reviewed it generally. I'm not sure I've
7 reviewed it recently. And certainly not in detail.

8 Q Will you accept subject to check that this is a
9 true and correct copy of that order?

10 MR. REICHMAN: You mean a page from that order?

11 MR. HARLOW: A page from that order.

12 THE WITNESS: I would accept that subject to
13 check.

14 Q BY MR. HARLOW: All right. I'd like to focus on
15 paragraph 163. And the first sentence states, quote, We
16 require LECs to file tariffs for the basic payphone
17 services and unbundled functionalities in the intrastate
18 and interstate jurisdictions as discussed below, end quote.

19 Do you see that sentence?

20 A Yes, I do.

21 Q And what -- do you have an understanding of what
22 basic payphone services means in that context?

23 A In this context I am not certain. I would guess,
24 but it would be strictly a guess.

25 Q I won't ask you to speculate or guess. Let's

1 instead move onto the second sentence which reads, "LECs
2 must file intrastate tariffs for these payphone services
3 and any unbundled features they provide to their own
4 payphone services."

5 Do you see that sentence?

6 A Yes, I do.

7 Q All right. In this context do you have any
8 understanding of the term "unbundled features"?

9 A I am assuming that the unbundled features would
10 apply to elements such as the coin control function that
11 may be inherent in the Smart PAL service.

12 Q So that would be an example?

13 A Yes.

14 Q Would that be the only example you could think
15 of?

16 A It's one that comes to mind. I can't think of
17 others.

18 Q All right. Would you consider line-side answer
19 supervision to be an unbundled feature in this context?

20 A It may be. If it calls for a legal
21 interpretation of how that's defined, I would hate to
22 hazard a guess. But it may be.

23 Q Does Qwest provide line-side answer supervision
24 to its Smart payphones in Oregon?

25 A I believe so.

1 Q Does Qwest -- I think we already established that
2 Qwest provides originating line screening service to its
3 own payphone services in Oregon.

4 A That service is known as CUSTOMNET. That's
5 correct.

6 Q And the next sentence starts out, "The tariffs
7 for these LEC payphone services must be", and then it
8 describes three requirements; is that correct?

9 A Yes.

10 Q And the third of that references computer 3
11 guidelines. And at the end there's a Footnote 492. And
12 that refers to the new services test; is that correct?

13 A Yes, it is.

14 Q Would it be your understanding that that language
15 that we've cited and quoted is the source of the
16 application of the new services test, at least of PAL
17 service?

18 A Again, as a non-attorney, I would answer I
19 believe that's correct. But I believe I also stated that
20 this does refer to basic payphone service. That term is
21 somewhat general and I'm not quite certain what they
22 intended in that definition.

23 Q Correct me if I'm wrong. I hope I'm wrong, but
24 my understanding is that Qwest disputes that the new
25 services test applies to line-side answering supervision

1 and screening; is that correct?

2 Certainly feel free to agree that new services
3 does apply to those services. I don't want to tell you
4 what your answer is.

5 A To the extent they're inherent in a PAL type
6 service, again, as a non-attorney, it would be my opinion
7 they would be governed by the new services test. If they
8 are not inherent in the PAL service, I would suggest that
9 they're not.

10 Q So essentially it depends on how the service is
11 bundled, if you will?

12 A Yes.

13 Q Would it have been feasible for Qwest to
14 structure a tariff in Oregon that included the access line
15 as one element, maybe one USOC (phonetic) and then add as
16 an optional element coin control functionality you might
17 call it, rather than the structure you've chosen where
18 you've got basic PAL and then Smart PAL which is a bundle
19 of the access line and the coin control functions?

20 MR. REICHMAN: Your Honor, I just want to be
21 clear. The question is whether it's feasible to do that in
22 a tariff as opposed to whether it's feasible to do that in
23 a network sense. This witness is not an expert on network
24 issues.

25 MR. HARLOW: Yes.

1 ALJ CROWLEY: So you're asking about tariff?

2 MR. HARLOW: Yes.

3 ALJ CROWLEY: Okay.

4 THE WITNESS: I would say from a tariffing
5 perspective, services could be unbundled in a variety of
6 manners. And that could be one.

7 MR. HARLOW: Your Honor, I would like to
8 distribute Exhibit 12. But before I do, I want to offer
9 Exhibit 11.

10 ALJ CROWLEY: Any objections to Exhibit 11?
11 That's the response to 05-050.

12 MR. REICHMAN: Oh, that we looked at before. No
13 objection.

14 ALJ CROWLEY: It's admitted.

15 Q BY MR. HARLOW: Would you identify NWPA 12 for
16 the record?

17 A Yes. This is Qwest's response to NWPA data
18 request 03-035.

19 Q And this exhibit describes how the various types
20 of originating line screening work?

21 A Yes, it does.

22 Q And CUSTOMNET, as you mentioned, is the service
23 that's provided to basic PAL customers that desire
24 screening?

25 A That's correct.

1 Q Excuse me. Do you have a two-page exhibit?

2 A I have a single page.

3 ALJ CROWLEY: I have a single page.

4 MR. HARLOW: We seem to be missing a page, Your
5 Honor. May we go off the record for a minute?

6 ALJ CROWLEY: Yes.

7 (Discussion held off the record)

8 ALJ CROWLEY: We are back on the record.

9 Q BY MR. HARLOW: Okay. We left off with
10 CUSTOMNET. Now, a similar functionality is provided for
11 Smart PAL.

12 And without reading the whole thing, hopefully we
13 can avoid that, it's a functionality that's inherent in the
14 service itself; is that correct?

15 A I'm sorry. I'm not sure I follow that entire
16 question.

17 Q Okay. I'm just trying to kind of summarize how
18 the Smart PAL screening function works. It's provided
19 inherently in the services; is that correct?

20 Are you having difficulty understanding the
21 question?

22 A I'm reviewing the response.

23 Q Okay.

24 A Quickly, too.

25 I think I testified earlier that the coin control

1 functions required for use of the Smart PAL set are
2 inherent in the central office. That would be recognition,
3 coin counting, that sort of thing.

4 To be honest with you, I can't recall whether the
5 CUSTOMNET feature itself is inherent in the smart PAL
6 rate. I do know and I testified earlier that the coin
7 control is.

8 And I can also tell you that CUSTOMNET is
9 included in the carrier PAL service which is separate from
10 Smart PAL.

11 Q Well, can you state at least that both services
12 are intended to prevent fraudulent charges from being
13 billed to the access line?

14 A That is the intent of that service, yes.

15 Q And the instance where that functionality is
16 required is when the payphone user might pick up the phone
17 and dial operator, or perhaps 10-10-288 to reach an AT&T
18 operator and would ask to have a call placed?

19 A It's meant to restrict certain types of calls to
20 prevent fraud.

21 Q In other words, if you pick up your home or
22 business phone and it's unrestricted, typically you can
23 dial the number directly or you can call an operator and
24 say, would you please place a call for me to Timbuckto or
25 something?

1 A I'm sorry.

2 Q Timbukto being a hypothetical location.

3 A Of course.

4 Q Okay. But if you did that from a payphone, the
5 payphone provider would have no way to collect the charges
6 for that call; is that correct?

7 A That's correct.

8 Q And that would be considered toll fraud?

9 A That's also correct.

10 Q And so are you aware that the payphone providers
11 must provide that operator access under federal law?

12 A I'm sorry. Did you say under federal law?

13 Q Yes.

14 A I personally am not aware of that.

15 Q Okay. Are you aware if there's any legal or
16 regulatory obligation to allow payphone users to connect to
17 the operator service provider of their choice?

18 MR. REICHMAN: I'll object to it just to the
19 extent that it calls for a legal conclusion.

20 ALJ CROWLEY: Just speak to your awareness as a
21 lay person.

22 THE WITNESS: As a lay person, I believe that's
23 correct.

24 Q BY MR. HARLOW: And so that makes this screening
25 capability, however it's provided, important to payphone

1 operators; isn't that correct?

2 A I believe screening is an important function,
3 yes.

4 Q Do you have any familiarity with the ANI II
5 digits that are used to perform this screening function?

6 ALJ CROWLEY: And for the record?

7 MR. HARLOW: That's A-N-I.

8 ALJ CROWLEY: Thank you.

9 MR. HARLOW: And then two more I's,
10 sometimes with a space between them.

11 THE WITNESS: To be frank with you, I'm not a
12 product manager in the PAL arena and I've not have the
13 occasion to become familiar with that, that issue.

14 Q BY MR. HARLOW: Now, this answer reflects -- and
15 I realize it isn't your answer, but if you can answer it, I
16 would appreciate it. But it reflects that CUSTOMNET is
17 data base driven.

18 Do you see that in your response data B?

19 A I do. I'm sorry. I do.

20 Q And do you have any familiarity with the costs
21 for this type of data base provided service?

22 A No.

23 Q Has anyone ever told you what the cost of
24 CUSTOMNET is per line per month?

25 A If it was given to me, I don't recall the

1 specific number.

2 Q Do you recall it being less than one penny?

3 A To be frank with you, I don't recall.

4 Q Do you recall it being in that neighborhood?

5 MR. REICHMAN: Your Honor, I think he's already
6 answered he has no recollection.

7 ALJ CROWLEY: I agree.

8 Q BY MR. HARLOW: Did you file any cost data for
9 CUSTOMNET in this docket?

10 A I believe I testified previously that price
11 wasn't changing. And with that in mind, we did not file
12 cost studies for every service we provide in the state.

13 Q So there's no data in this docket to establish
14 what the direct costs of the service are or what the markup
15 or contribution are for CUSTOMNET screening?

16 A In the context of this docket, that would be
17 true.

18 MR. HARLOW: Okay. Your Honor, the next --
19 excuse me. I wish to offer Exhibit 12.

20 MR. REICHMAN: Subject to the understanding that
21 it will be made complete.

22 ALJ CROWLEY: Supplemented.

23 MR. HARLOW: Yes. Your Honor.

24 MR. REICHMAN: No objection

25 ALJ CROWLEY: Page 2 -- conditioned on the

1 provision of page 2, it's admitted.

2 MR. HARLOW: I will do so. And can we make that
3 out if we don't have time to get copies of it at the lunch
4 hour, Your Honor?

5 ALJ CROWLEY: Let's copy it during the lunch
6 hour.

7 MR. HARLOW: All right. We'll get it.

8 ALJ CROWLEY: It will take five minutes to go
9 upstairs and do it.

10 MR. HARLOW: That's right. Thank you. I wish to
11 distribute Exhibit 13, Your Honor. I do think we can
12 finish the PAL cross before lunch.

13 ALJ CROWLEY: All right.

14 Q BY MR. HARLOW: Can you identify Exhibit NWPA 13,
15 Mr. Teitzel?

16 A Yes. This exhibit is Qwest's response to NWPA
17 data request 03-03 -- excuse me. 03-021.

18 Q And this quantifies the number of Qwest CUSTOMNET
19 customers -- subscribers rather in the state of Oregon?

20 A It quantifies the number of CUSTOMNET subscribers
21 at the time this data request was put together. This may
22 be 1999 data. Not specified.

23 Q Do you know approximately how many total or all
24 access lines Qwest provides in Oregon?

25 MR. REICHMAN: Can you put in --

1 MR. HARLOW: I would like to put it in the time
2 frame of this data request response, if I can.

3 ALJ CROWLEY: And that time frame is?

4 MR. HARLOW: I think it's the June of -- just a
5 moment. Let me look it up. June 23rd of 2000.

6 ALJ CROWLEY: Okay.

7 MR. REICHMAN: You're asking the total number of
8 access lines in the state of Oregon at that time?

9 MR. HARLOW: Yes. To the nearest half a million
10 or so. Nearest hundred thousand.

11 THE WITNESS: I can tell you that it was in the
12 range of a million, slightly under I believe at that time.

13 Q BY MR. HARLOW: And would you be able to accept
14 subject to check, again, using ballpark numbers, PAL
15 subscribers or public access lines comprised less than one
16 percent of the total Qwest access lines in Washington in
17 1999 -- excuse me. 2000?

18 MR. REICHMAN: First, object. You did say
19 Washington as opposed to --

20 MR. HARLOW: It was just a slip. Oregon.

21 MR. REICHMAN: Well, if you can answer the
22 question. There are numbers on here that you may be able
23 to use.

24 THE WITNESS: If I were to divide one by the
25 other, that would be the calculation.

1 Q BY MR. HARLOW: And Mr. Wood had testimony
2 reflecting that -- excuse me. Let me withdraw that and
3 phrase it a different way.

4 Looking at the attachment to the data request
5 response which is the second page of NWPA 13, would you
6 agree that more than 50 percent of the CUSTOMNET
7 subscribers in Oregon are PAL basic access line
8 subscribers?

9 A Yes, I would, at that point in time.

10 MR. HARLOW: Your Honor, we offer Exhibit 13.

11 MR. REICHMAN: No objection.

12 ALJ CROWLEY: It's admitted.

13 MR. HARLOW: I wish to distribute Exhibit 14,
14 Your Honor.

15 ALJ CROWLEY: All right.

16 Q BY MR. HARLOW: Can you identify NWPA Exhibit 14
17 for the record, please?

18 A Yes. This exhibit is a Qwest response to NWPA
19 data request 03-030.

20 MR. HARLOW: Your Honor, we offer Exhibit NWPA
21 14.

22 MR. REICHMAN: No objection.

23 ALJ CROWLEY: It's admitted.

24 MR. HARLOW: I wish to distribute Exhibit 15,
25 Your Honor.

1 ALJ CROWLEY: All right.

2 Q BY MR. HARLOW: Can you identify Exhibit NWP 15
3 for the record, please?

4 A Yes. This is also a Qwest response to NWP 15
5 request, numbered 04-036.

6 Q And in this data request, the Northwest Payphone
7 Association requested cost studies for line-side answer
8 supervision and originating line screening; is that
9 correct?

10 We asked for a supplement to a prior request for
11 that data; is that correct?

12 MR. REICHMAN: Is that prior request in the
13 record so we can verify that?

14 MR. HARLOW: Yes. It's one of the early
15 exhibits. Number 5 I believe. Yes, it's NWP 15 I believe.

16 THE WITNESS: Yes. It asks for a supplement to
17 NWP 15 data request 03-008 regarding line-side answer,
18 supervision and originating line screening.

19 MR. HARLOW: Your Honor, we offer Exhibit 15.

20 ALJ CROWLEY: Any objection?

21 MR. REICHMAN: No objection.

22 ALJ CROWLEY: It's admitted.

23 MR. HARLOW: Your Honor, that's all the questions
24 we have on PAL, unless I think of some over the lunch hour.
25 So this might be a good time to take our lunch hour.

1 ALJ CROWLEY: It looks like an appropriate time
2 for me.

3 MR. REICHMAN: Your Honor, may I suggest another
4 option and this, obviously, is up to you. I don't know
5 whether we want to do redirect on PAL and get PAL done with
6 this witness before we move on.

7 ALJ CROWLEY: Would you object to that, Mr.
8 Harlow?

9 MR. HARLOW: How long would you have?

10 MR. REICHMAN: That's a good question. I would
11 say less than 15 minutes. And I'm happy to do it after
12 lunch.

13 MR. HARLOW: Either way would be fine with us.

14 ALJ CROWLEY: I would actually prefer to keep
15 going with the PAL issue and wrap it up if we can. If we
16 run much more than 15 minutes, than we'll break at a more
17 inopportune time than that would have been.

18 MR. REICHMAN: It may very well be less. I'll
19 try to be brief.

20 ALJ CROWLEY: All right.

21 --ooOoo--

22 REDIRECT EXAMINATION

23 BY MR. REICHMAN:

24 Q Mr. Teitzel, I just want to make sure the record
25 is clear on one issue.

1 Qwest offers, among other services, a service
2 called Smart PAL and a service called basic PAL, correct?

3 A That's correct.

4 Q And each of those two services is available to
5 any payphone provider, whether that is a Qwest payphone
6 division or a competing provider, correct?

7 A That's my understanding.

8 Q And those services are offered at the same price
9 to all providers, correct?

10 A That is true.

11 Q With respect to those services, Qwest also
12 charges certain federally required charges, such as what's
13 been referred to as EUCL and possibly PICC, correct?

14 A That's true.

15 Q And does Qwest apply those charges to all
16 entities or people that purchase payphone access services?

17 A Yes.

18 Q And that's true whether it's the Qwest payphones
19 division or a competing provider?

20 A That's correct.

21 Q I also want to clarify one thing. At some point
22 during Mr. Harlow's questioning of you, he was asking you
23 some questions about the price floor and what the price
24 floor was composed of. And there was reference to building
25 blocks.

1 Do you recall that testimony?

2 A Yes, I do.

3 Q And I believe he said -- he made a statement to
4 the effect of the price floor includes shared and common
5 costs for wholesale services.

6 When you were referring to wholesale services in
7 that context, were you referring to what are commonly
8 referred to as UNEs, unbundled network elements?

9 A Yes, I was. And I think I referred later then to
10 Sections 251 and 252 as providing the pricing guidelines
11 for wholesale elements. And these are UNE elements.

12 Q So when you used the word "wholesale", you meant
13 UNEs?

14 A I did.

15 Q There was some discussion about Qwest's original
16 proposals for prices in this case in November of '99 and
17 Qwest's current proposal. Just so the record is clear,
18 what is Qwest proposing for the relationship, if you will,
19 between the price of PAL access lines and for basic
20 business lines?

21 A Qwest is proposing that the prices would be the
22 same, identical, for those two services. As I testified
23 earlier, it's Qwest's position that the services are
24 functionally the same.

25 Q And are PAL providers businesses?

1 A Yes, they are.

2 Q At one point Mr. Harlow asked you the question as
3 to whether the basic difference between Qwest and his
4 client with respect to the price of PAL services is the
5 level of contribution.

6 Why do you believe the level of contribution that
7 Qwest proposes for PAL services is reasonable?

8 A As I testified previously, a PAL service, whether
9 it be a flat or measured PAL service, is functionally
10 identical to a flat or measured business line
11 in virtually every respect. Both services involve
12 typically a loop, typically a copper loop to the location.
13 Both services involve switching. Both services involve
14 connection to our switch. They are functionally
15 identical.

16 Q And is it also true that both services are
17 provided to business customers?

18 A That is also correct.

19 Q Mr. Harlow had a line of questioning relating to
20 the possible implications if PAL prices are too high. And
21 I believe he asked you something to the effect of whether
22 that might cause PAL providers to cease providing service
23 at a location.

24 If Qwest -- if a PAL -- I guess I should be
25 saying that if a payphone provider believed that Qwest's

1 PAL prices were too high, would that PAL -- I'm sorry.
2 Payphone provider be able to obtain access to
3 telecommunications services from another provider for that
4 same location?

5 A To the extent that there was a competitive
6 provider or another provider, alternative provider,
7 offering service in that area, the answer would be yes.

8 Q Would another provider -- let's call them a
9 CLEC.

10 A Yes.

11 Q Be able to resell the PAL line that Qwest had
12 located in that serving -- serving that particular
13 payphone?

14 A I believe so.

15 Q And, indeed, would that CLEC be able to obtain
16 that PAL line at a wholesale discount; is that your
17 understanding?

18 A My understanding is that the wholesale discount
19 would apply in that case.

20 Q And would the CLEC also be able to provide
21 service to that location through the use of a purchase of
22 UNEs from Qwest?

23 A A carrier registered as a CLEC can, in Oregon,
24 can purchase UNEs from Qwest, yes.

25 Q And can the carrier then use those UNEs to

1 provide service to a payphone in Oregon?

2 A Certainly. And I would augment that answer by
3 saying that it's my belief that a payphone provider itself
4 can register as a CLEC and buy the UNEs itself to provide
5 that service.

6 Q Through an interconnection agreement with Qwest?

7 A Right.

8 Q Now, if a payphone existed in a current location
9 and it was served by Qwest at a retail PAL rate, and the
10 payphone provider choose to obtain services from a CLEC,
11 would you foresee any problems in provisioning service to
12 that particular payphone, that existing payphone, through a
13 resell or through UNEs?

14 A If the facilities were there in both examples,
15 there should be no problem with provisioning that service
16 either way.

17 Q Mr. Harlow also asked you to acknowledge that
18 there were some residences in the state of Oregon that do
19 not have telephone service, wire line telephone service in
20 their home. I believe that was the question.

21 Do you recall that?

22 A I do recall that.

23 Q And is it possible that those people could have a
24 cell phone for telephone service?

25 A I'm sorry. I'm not sure I caught that question

1 entirely. Is it possible they would not have?

2 Q It possible that a person who lives in a
3 residence who does not have a wire line phone has a cell
4 phone?

5 A Yes, it is.

6 Q And that that telephone, indeed, could operate in
7 their home?

8 A That's very possible.

9 Q And is it also possible that that person could
10 obtain telephone service over a cable system?

11 A Yes, it is.

12 Q Mr. Harlow referenced the fact that Qwest has
13 recently announced a decision to raise its coin charge for
14 payphones.

15 Do you recall that?

16 A I do recall that.

17 Q Is there anything, to your knowledge, that would
18 prohibit other payphone providers from similarly adjusting
19 their rates?

20 A To my knowledge, there's nothing to prohibit
21 that.

22 MR. REICHMAN: May I have one moment?

23 ALJ CROWLEY: Yes.

24 MR. REICHMAN: Nothing further, Your Honor.

25 ALJ CROWLEY: Thank you. Mr. Harlow?

1 MR. HARLOW: Thank you, Your Honor.

2 --ooOoo--

3 RE CROSS EXAMINATION

4 BY MR. HARLOW:

5 Q On redirect you testified to a number of
6 attributes that you felt showed that PAL business line
7 services were equivalent.

8 Do you recall that?

9 A I'm sorry. I missed the last part of your
10 question. Would you repeat that?

11 Q You testified on redirect to several attributes
12 that you believed showed that PAL and business services
13 were equivalent?

14 A I do recall that.

15 Q Would you agree that business services -- for
16 business services that there is no federal mandate that
17 Qwest comply with the new services pricing methodology?

18 A I would agree with that.

19 Q You also testified that in your belief payphone
20 providers can buy UNES themselves through an
21 interconnection agreement with Qwest.

22 Do you recall that?

23 Q That wasn't my entire answer. I believe I said I
24 do not believe there's anything to prevent a payphone
25 provider from registering as a CLEC and a CLEC and

1 purchasing UNEs under an interconnection agreement.

2 Q In the same entity or in a separate entity?

3 MR. REICHMAN: I object to that in that it
4 requires a legal conclusion.

5 ALJ CROWLEY: If he knows, as a lay person.

6 THE WITNESS: As a lay person, I believe it could
7 be either, in either event.

8 Q BY MR. HARLOW: Have you been authorized to bind
9 Qwest to make this a commitment of Qwest, or are you only
10 stating your own opinion?

11 A I'm sorry, Mr. Harlow. I think my hearing is
12 leaving me. I missed the last part of your question.

13 Q I'm sorry. I'll speak up. We're all getting
14 tired. I'm sorry.

15 Have you been authorized to bind Qwest to this
16 position or are you simply stating your position?

17 A No. I believe it is Qwest's position that if an
18 entity meets the requirements to be a CLEC and registers
19 with the State as a CLEC and signs an interconnection
20 agreement with Qwest, they can purchase UNEs from Qwest.

21 Q And that's whether it also happens to provide
22 payphone services or not?

23 A That's my understanding.

24 Q And is that Qwest's position in all 14 states or
25 simply in Oregon?

1 A To the best of my understanding, that's our
2 position.

3 Q Would you at least let us know if you check and
4 that's not a correct statement of Qwest's position?

5 MR. REICHMAN: Well, I think he's stated pretty
6 clearly that that's Qwest's position.

7 MR. HARLOW: Okay. We'll consider Qwest as
8 stopped. And I have no further recross, Your Honor.

9 ALJ CROWLEY: Any follow up, Mr. Reichman?

10 MR. REICHMAN: No follow up.

11 ALJ CROWLEY: All right. Let's take a break for
12 lunch. Let's be back here at 1:30 and we'll start with
13 Centrex.

14 (Recess taken)

15 ALJ CROWLEY: Mr. Harlow?

16 MR. HARLOW: Thank you, Your Honor.

17 --ooOoo--

18 CROSS EXAMINATION

19 BY MR. HARLOW:

20 Q Good afternoon, Mr. Teitzel.

21 A Good afternoon, sir.

22 Q And as you I believe know, the other client I
23 represent in this proceeding is ATG. And we would like to
24 turn to the issue of Centrex rates.

25 First of all, I wondered if you could describe

1 generally what the service Centrex Plus is?

2 A Yes. Generally, Centrex Plus is a Centrex type
3 service that is designed in price for fairly large business
4 customers that typically have a substantial volume of
5 stations or telephone lines at a particular location. It
6 could be governments, banks, schools, those sorts of
7 customers.

8 Centrex Plus operates via a common block. And
9 that term refers to a partition in our -- software
10 partition in our central office switch.

11 ALJ CROWLEY: Excuse me. That was common block?

12 THE WITNESS: Common block. Which is a software
13 partition in our central office switch which allows users
14 within that Centrex system to call each other on a four
15 digit system on an intercom type basis. And also it
16 provides for a standard set of features to all stations in
17 the system. It's designed in a way to compete with large
18 PBX systems.

19 Q Does Qwest offer any other Centrex services in
20 Oregon other than Centrex Plus?

21 A Yes. It offers a service called Centrex 21.

22 Q And how does that differ from Centrex Plus?

23 A It's a similar service. It has a different
24 range -- a slightly smaller range of features, including
25 the standard features. It is a system where multiple

1 users, different unrelated users of that service, share the
2 same common block, if you will. Whereas in Centrex Plus
3 there is a common block typically dedicated to each user.

4 Q Does Qwest offer any other Centrex services in
5 Oregon other than those two?

6 A None that are called Centrex in that particular
7 family. We have other services and packages of services,
8 such as Custom Choice, which provides a block of features
9 for a particular price.

10 Q Do you --

11 A But it is not in the Centrex product family.

12 Q Do you serve as a witness for Qwest in other
13 states regarding Centrex services?

14 A I have in the Arizona rate case recently
15 testified as to Centrex pricing. And many years ago as a
16 Centrex product manager, I have testified in Oregon on
17 Centrex issues.

18 Q Are you familiar with the service called Centrex
19 Prime?

20 A Generally.

21 Q And does that differ from Centrex Plus?

22 A Centrex Prime is a, if you will, subversion of
23 Centrex Plus, which is as I understand it, incorporates
24 ISDN functionality into the service. Whereas Centrex Plus
25 is primarily an analog type service.

1 Q Does Qwest offer the ISDN features of Centrex
2 in Oregon?

3 A I believe that customers certainly can subscribe
4 to ISDN at a location if they also subscribe to the Centrex
5 service. But I believe the Centrex Prime, the difference
6 is that feature is actually integrated into the service. I
7 think that's the distinction.

8 Q And putting aside for a moment the ISDN or the
9 digital aspects of Centrex Prime and focusing solely on the
10 analog Centrex Prime product, are Centrex Prime and Centrex
11 21 costed and priced in the same general ways?

12 A Centrex Prime and Centrex 21?

13 Q Excuse me. And Centrex Plus.

14 A Centrex Prime includes a standard array of
15 features beyond what is offered in Centrex Plus. So
16 there's a difference there.

17 Q What about the access line, the analog access
18 line to call?

19 A I think the access line itself, the loop itself
20 is similarly cost and priced.

21 Q And specifically both Centrex Prime and Centrex
22 Plus are priced on a per location or a location specific
23 basis?

24 A That is correct.

25 Q Do you know how a location is defined for

1 purposes of Qwest's Oregon tariffs?

2 A A location would be defined as a physical
3 customer location at a specific street address. A location
4 may be a high rise building in downtown Portland. That
5 would be considered a location.

6 Q Do you know when Centrex was developed
7 approximately, at least by Qwest?

8 A Well, I believe I mentioned in my testimony that
9 I was a product manager for Centrex at one time. And that
10 was in the late 1980s. And Centrex or versions of Centrex
11 were introduced prior to that. So I would say likely in
12 the mid-1980s.

13 Q And when you were product manager of Centrex in
14 the mid-1980s, was Centrex priced on a locational basis?

15 A We had contracts in that point in time. I
16 believe some of our contracts were higher end customers
17 that had a location component. But the structure was not
18 precisely the same as Centrex Plus currently.

19 Q What about the tariff; did any tariff customers
20 receive discounts based on number of lines at a location?

21 A Not that I recall.

22 Q I threw in a new term at you. Maybe we should
23 back up. Would it be fair to say that at least for many
24 lines at a location, wherever the price break is, the price
25 of Centrex service in Oregon is less than the price of

1 business, regular business line service?

2 A I'm sorry. Are you asking me is the price for
3 Centrex Plus per customer that has many lines lower than
4 for a single business line?

5 Q Yes.

6 A It is.

7 Q Okay. And so would you accept my use of the term
8 "a discount for multiple lines at a location"?

9 A That's a reasonable term I think.

10 Q Okay. Can you tell us what the current discount
11 breaks are in terms of the number of lines at a location
12 before the discount kicks in or before it changes to a
13 higher discount?

14 MR. REICHMAN: Just for clarification, are you
15 asking the current -- what's proposed in this case or the
16 current as it exists today?

17 MR. HARLOW: I'm going to ask both. Right now
18 I'm asking the current.

19 MR. REICHMAN: Thank you.

20 THE WITNESS: Currently the discount breaks
21 are -- price A would apply to the systems of 1 to 20
22 lines. And there's a discount break in the beginning of 21
23 lines. So the 21st through the 50th line are discounted.
24 And then there's another break at 51 and above lines.

25 So an example, if you have a hundred line system,

1 the first 20 lines would be a price A. The next group of
2 lines would be price B. And lines above that would be at
3 51 plus price.

4 Q And what would be the price break points under
5 Qwest's proposal in this docket?

6 A Let me just double check and make sure I'm
7 accurate. Well, there are price breaks that correspond to
8 those that I just listed. 1 to 20, 21 to 50, 51 -- it's 51
9 to 300. And then systems that have 300 or more lines
10 receive a price break beginning at 301.

11 Q Is there another break proposed at 500?

12 A I don't have the tariff in front of me. It's
13 possible there is an ICB component above 500.

14 ALJ CROWLEY: There is a what?

15 THE WITNESS: Price break.

16 ALJ CROWLEY: Thank you.

17 THE WITNESS: On ICB basis, individual case
18 basis.

19 MR. HARLOW: Yes. I think we should make that
20 clear for the record, Mr. Teitzel.

21 THE WITNESS: I'm clear. But the first price
22 breaks I had talked about initially, 1 to 20, 21 to 50, and
23 51 to 100 are precise. And then the systems between 101
24 lines and 300 receive a discount. And the 301 plus, 301
25 and above lines are priced on an individual case or ICB

1 basis.

2 Q BY MR. HARLOW: And this is the proposal?

3 A Yes.

4 ALJ CROWLEY: So there's a break for 500?

5 THE WITNESS: It's 301 plus on an individual case
6 basis.

7 Q BY MR. HARLOW: Thank you for the correction.

8 Can you give us just by way of example what is the proposed
9 price for 1 to 20 Centrex systems and 1 to 20 lines at a
10 location?

11 Just for the record, what document are you
12 referring to, Mr. Teitzel?

13 A I'm referring to the document that Mr. Reichman
14 sent to the Commission on the 19th of March, 2001. I
15 discussed this previously in the public access lines
16 testimony.

17 Q Was that copied to all the parties?

18 MR. REICHMAN: Of course.

19 THE WITNESS: I am not certain. Maybe you could
20 ask Mr. Reichman that question.

21 MR. REICHMAN: Of course it was.

22 MR. HARLOW: I expected it was. Is it part of
23 the record in this docket?

24 MR. REICHMAN: May I have --

25 MR. HARLOW: Mr. Teitzel, if you know?

1 MR. REICHMAN: May I have a minute?

2 THE WITNESS: I don't know. It was referred to
3 previously in testimony. Whether it's been entered, I
4 don't know.

5 MR. REICHMAN: Do you want me to address that?

6 ALJ CROWLEY: Yes, please.

7 MR. REICHMAN: On March 19th, 2001, we filed
8 with the Commission a revised UT 125 rate spread which
9 modified a portion of the Advice Number 1849 filed on
10 November 15, 2000, as discussed in settlement conference
11 earlier that month. And that was served upon the service
12 list.

13 And I believe Staff acknowledged in its testimony
14 that it was considering this to be a revision to the rate
15 proposal.

16 MR. HARLOW: Can we go off the record for a
17 moment, Your Honor?

18 ALJ CROWLEY: Certainly.

19 (Discussion held off the record)

20 Q BY MR. HARLOW: All right. Again, if you would
21 for the record give as an example the proposed 1 to 20 line
22 price per line?

23 A The document I was referring to that Mr. Reichman
24 provided on March 19th provides average prices. So I'm not
25 sure that I can give you -- I don't have in front of me the

1 precise prices on the stand. But I can tell you that the
2 proposed -- just a moment.

3 Yeah, this document provides an average across
4 all rate steps for rate groups 1, 2 and 3. So I don't have
5 in front of me for the price for 1 to 20.

6 Q Well, for illustrative purposes, what's the
7 average price for 1 through 20 across all three rate
8 groups?

9 A Again, the document I have in front of me doesn't
10 have that specific number. It's an average across all
11 system sizes for rate groups 1, 2 and 3. Is that the
12 number you'd like?

13 Q Well, let's start with that. I'm not quite sure
14 what you're saying, but maybe we can get to it.

15 A The average Centrex Plus station line rate as
16 proposed for all system sizes in rate group 1 is \$14.37.
17 In the rate group 2, the proposed average rate -- this copy
18 is not terribly good. I believe it says \$18.82. And in
19 rate group 3 it's \$33.62.

20 Q All right. And just for comparison purposes,
21 what is the proposed business line rate for rate group 1?
22 Do you have an average on that?

23 A Yes.

24 A In rate group 1, that number is 26.20. In rate
25 group 2 it is 28.70. And in rate group 3 it is 30.70.

1 Q So it would be fair to say that the average
2 Centrex, just for comparison purposes, the average Centrex
3 Plus line rate is a little less than -- a little more
4 rather, than half the average business line rate; is that
5 correct?

6 A That's fair to say.

7 Q Now, the average business line does not include
8 any of the features that are included in the Centrex Plus
9 feature package; is that correct?

10 A It does not.

11 Q Both the services, both Centrex and business
12 services, use the same type of loop facilities; is that
13 correct?

14 A I couldn't agree with that.

15 Q All right. I'm sorry. I withdraw it. I
16 shouldn't have asked it that way.

17 Both of them require some form of a loop,
18 correct?

19 A Both services require a means of accessing the
20 customer premises, whether that be by copper, fiber, some
21 other means. Some means is required.

22 Q Both require a switch port?

23 A Yes.

24 Q And both of them have the usage costs?

25 A That's correct.

1 Q Is the usage roughly comparable between Centrex
2 and business services?

3 A It is not the same precisely, but I think it is
4 reasonably close.

5 Q And it's my understanding that the per location
6 pricing and the discounts are based on an assumption in the
7 cost studies that the larger number of lines at a location
8 will be served by a different technology than plain old
9 copper loops; is that correct?

10 A I'd say that maybe slightly differently. I would
11 say rather that the company looks at the most efficient way
12 to serve a large customer location. That means could
13 involve fiber. It could involve the T-1 type service. It
14 could involve some sort of carrier system. Or it could
15 involve just a large copper cable with many, many pairs in
16 it.

17 Q But there are assumptions of different
18 technologies?

19 A Again, to respond, the company would assume the
20 most efficient means of serving that location on a forward
21 looking basis.

22 Q Now, Qwest Exhibit 225 was an attachment to your
23 prefiled testimony that consisted of an order of the
24 District Court for the Western District of Washington in
25 the case in which Metronet Services Corporation was the

1 plaintiff, a plaintiff, and Qwest is a defendant; is that
2 correct?

3 A That's correct.

4 Q And that was an anti-trust case; is that
5 correct?

6 A That's my understanding.

7 Q And I take it you've read the order?

8 A I have.

9 Q And have you read any of the background materials
10 submitted to the Court in conjunction with the motion that
11 was a subject of that order?

12 A I'll respond by saying that I've read some. But
13 there were thousands and thousands of pages of documents I
14 believe produced, so I have not read them all.

15 Q Did you have an opportunity to peruse them all?

16 A Did I have an opportunity to peruse them all?

17 Q Yes. Did you have them all in your possession in
18 front of you in one point in time?

19 A No, I did not.

20 Q So you were provided selected copies of documents
21 at some point?

22 MR. REICHMAN: Objection. It mischaracterizes
23 his testimony.

24 MR. HARLOW: He said he'd seen some of them and
25 he hadn't seen all of them.

1 THE WITNESS: As an example -- I'll offer an
2 example. I did review Mr. Gary Fleming's deposition, which
3 NWPA asked about in a data request trying to anticipate
4 what the concerns may be about that deposition. That's the
5 primary document that I have reviewed, other than the
6 order.

7 Q BY MR. HARLOW: Do you agree that the per
8 location pricing restriction on Centrex services restricts
9 resale of those services?

10 A No.

11 MR. HARLOW: Your Honor, I'd like to mark ATG
12 Exhibit 3 and distribute it, please.

13 ALJ CROWLEY: Okay.

14 Q BY MR. HARLOW: Can you identify ATG 3?

15 A Yes. This is a Qwest response to ATG's data
16 request 03-019.

17 Q And without waiving objections, did Qwest agreed
18 that we could use confidential material from the federal
19 court case, the Metronet federal court case in this docket
20 and seek to offer it; is that correct?

21 MR. REICHMAN: I just want to object and
22 clarify. What this document says is that we agree it could
23 be offered but not necessarily that it was admissible.

24 ALJ CROWLEY: Right.

25 MR. HARLOW: That's what I thought I said.

1 MR. REICHMAN: I just want to make clear. You
2 said "use". I didn't know what that meant.

3 MR. HARLOW: Well, the protective order in the
4 federal court docket says you can't use the documents for
5 any other purpose other than that case. So we need
6 permission from Qwest.

7 Q BY MR. HARLOW: You're aware I take it that the
8 Metronet order, Exhibit 225 to your testimony, has been
9 appealed to the Ninth Circuit; is that correct?

10 A Yes, I am.

11 Q Do you have any familiarity with the elements
12 required to prove in an anti-trust case?

13 A I'm not an attorney. If you'd ask me a specific
14 question about an element, I can certainly try to respond.

15 Q Well, would it be your understanding that an
16 anti-trust plaintiff in a monopolization case needs to
17 prove that the defendant has market power in a relevant
18 market?

19 MR. REICHMAN: Your Honor, I just want to object
20 to the line of questioning on the grounds that it calls for
21 a legal conclusion.

22 ALJ CROWLEY: Yes. I think it's going to be
23 clear from this transcript that he is not an attorney.

24 THE WITNESS: No, I'm not a lawyer.

25 MR. HARLOW: Your Honor, I want to be clear that

1 I'm not asking for legal conclusions from this witness,
2 only from the Commission itself.

3 THE WITNESS: I believe as a non-attorney, that
4 is a guideline or a requirement, if you will.

5 Q BY MR. HARLOW: It would be your understanding
6 that that's not a required element for rate setting in this
7 docket?

8 A As a non-attorney, I believe that is true.

9 Q And would it be also your understanding that in
10 an anti-trust case the plaintiff needs to prove that it
11 suffered something called anti-trust injury?

12 A That's my understanding.

13 Q And would it be your understanding that that
14 would not be an element of proof that would be required for
15 rate setting in this docket?

16 A Again, to the extent that it's a legal issue, I
17 wouldn't offer a legal opinion. But I believe that's true
18 as a lay person.

19 Q And so would you agree that the issues in the
20 Metronet anti-trust case are somewhat different from the
21 issues in this case?

22 A I think in one event it's an anti-trust case
23 trying to prove harm, trying to prove that competitor or
24 firm was driven from a market or harmed in some way. And I
25 would agree that's not an issue necessarily in this case.

1 Q And did you note that the Court in the Metronet
2 case found that Qwest did not have market power in the
3 relevant market there, which was defined as the Seattle/
4 Tacoma area of Washington?

5 A I don't recall Seattle/Tacoma area being named
6 specifically, but I do recall a conclusion being made that
7 there was not Qwest provided market power.

8 Q Did you note that there was no discussion of
9 Qwest market power, if any, in any Oregon markets?

10 A No. This is strictly a Washington case.

11 Q Now, you noted elsewhere in your rebuttal
12 testimony that you thought that the Commission ought to
13 disregard the Wisconsin order because Qwest has effectively
14 appealed that order to the full FCC; is that correct?

15 A I suggested that the order is under appeal.
16 That's our opinion. There's a good chance that order on
17 appeal will be overruled. It's also my understanding that
18 the prices are not even yet in effect in Wisconsin in
19 response to that order.

20 Q If it were Metronet's opinion that hypothetically
21 the Ninth Circuit was going to overturn the order that you
22 have attached to your testimony, do you think this
23 Commission should nevertheless follow it or not?

24 A I would suggest the Metronet or ATG in this case
25 could offer that opinion and the Court will do with that as

1 they will.

2 MR. HARLOW: Your Honor, I'd like to distribute
3 ATG Exhibit 4.

4 ALJ CROWLEY: All right.

5 MR. HARLOW: And I also would like to offer
6 Exhibit 3.

7 ALJ CROWLEY: Any objection to 3?

8 MR. REICHMAN: I have no objection. I don't
9 think it really says anything of evidentiary weight.

10 ALJ CROWLEY: It's admitted. Your comment is
11 noted.

12 MR. HARLOW: Thank you, Your Honor. And, Your
13 Honor, I would simply like to note that we're laying
14 foundation for documents that do say something that Mr.
15 Reichman has indicated he expects to object to. So I
16 appreciate your patience with the foundation.

17 Q BY MR. HARLOW: Have you ever seen ATG Exhibit 4,
18 Mr. Reichman?

19 MR. REICHMAN: I'm not under oath.

20 MR. HARLOW: Excuse me. Mr. Teitzel. You were
21 testifying so well earlier in the hearing.

22 THE WITNESS: I do not recall seeing this
23 document, no.

24 Q BY MR. HARLOW: Okay. Will you accept subject to
25 check that this was the cover pages, if you will,

1 identifying the -- I don't remember if you used the term
2 dozens or thousands or hundreds of documents before the
3 Court and in which the Court reviewed in issuing the order
4 that is Exhibit Qwest 225?

5 A It would appear to be so. I've never seen the
6 document before, so I couldn't swear to that.

7 Q But you'll accept that subject to check?

8 MR. REICHMAN: If Mr. Harlow wishes to represent
9 that's what it is, I think that would make us feel more
10 comfortable.

11 MR. HARLOW: I'm reticent to testify, but I'll
12 make that basis.

13 THE WITNESS: I will accept it on that basis.

14 ALJ CROWLEY: Okay.

15 Q BY MR. HARLOW: Are you aware that Mr. Reichman's
16 law firm also represented Qwest in the Metronet case?

17 MR. REICHMAN: Objection as to relevance.

18 MR. HARLOW: I'm simply trying to establish a
19 foundation to accept some of these subjects to check
20 because I believe Mr. Reichman has access to all of the
21 documents that we're going to be trying to introduce this
22 afternoon.

23 ALJ CROWLEY: All right. I'll allow it.

24 THE WITNESS: I'm aware that it was Perkins
25 Coie. Not specifically Mr. Reichman but an attorney in

1 that firm. Whoever represented Qwest in that proceeding.

2 Q BY MR. HARLOW: If you would please turn to your
3 rebuttal testimony, page 29.

4 A I have that page.

5 Q Do you see there at line 68 where you opine that
6 per location pricing is not an abuse of market power?

7 A Are you referring to the question? My line
8 numbers apparently don't match yours.

9 Q It's the answer that starts out, "No. The
10 concept of per location pricing is intended to provide
11 volume based discounts."

12 A Yes, I have that question and answer. The line
13 numbers apparently don't match.

14 Q Did you review the Metronet documents,
15 specifically the documents listed in ATG 4, to see if those
16 documents were consistent with your rebuttal testimony at
17 page 29?

18 A I believe I testified previously that I did not
19 review -- I have not seen this document until today, nor
20 did I review the preponderance of the documents listed
21 here. But I do believe that per location pricing is an
22 issue in this docket and was an issue in this anti-trust
23 case.

24 Q Did you review any documents other than Mr.
25 Fleming's deposition from the anti-trust case?

1 A I reviewed the order itself and had verbal
2 discussions with people who had been deposed in that case.

3 Q Who?

4 A And read Mr. Fleming's deposition.

5 Q Who did you talk with?

6 A I spoke to Delores Legg specifically, who is one
7 of our Centrex Plus managers at Qwest.

8 MR. HARLOW: Your Honor, I would like to
9 distribute Exhibit 5.

10 ALJ CROWLEY: Okay.

11 MR. HARLOW: And I note this is confidential to
12 Qwest.

13 ALJ CROWLEY: Thank you.

14 Q BY MR. HARLOW: Now, if you would please, take a
15 look at the document control number on the lower right-hand
16 corner of Exhibit 5. Do you see the number 68504?

17 A Yes, I do.

18 Q And prior to that there's a designation USW?

19 A I see that.

20 Q And does U.S. West -- I mean, did Qwest when it
21 was known as U.S. West, in your experience apply document
22 control numbers that began with the designation USW?

23 A I have seen these in the past, yes.

24 Q And you see there's an exhibit number on there?

25 A I do.

1 Q It looks like this may have been an exhibit to a
2 deposition.

3 A This is Exhibit 91. I see that.

4 Q If you would, please, turn to ATG Exhibit 4,
5 page -- just a moment. It's going to be page 2.

6 A I'm sorry. I don't see page numbers on here. Is
7 that the second yellow?

8 Q No. I'm referring now to Exhibit 4 now, not 5.

9 A I'm sorry. Yes, I have that.

10 Q And if you would please take a look at page 2 and
11 the -- you see there's a table there and the number 32. It
12 says memorandum from Andrew Berlinberg to Carey Balzer
13 dated July 10, 1997?

14 A This says that in part. It says
15 memorandum from Andrew Berlinberg to Carey Balzer, John
16 Kelley and Sue Parks. July 10th, 1997.

17 Q Does that appear to you to describe the ATG
18 Exhibit 5 in general terms?

19 A Yes.

20 Q Can you tell me who Andrew Berlinberg is?

21 A Andrew Berlinberg is a gentleman I have known in
22 the past. And to be frank with you, I'm not certain
23 whether he's still with the company. I've not spoken to
24 him in years.

25 Q Do you know what his --

1 A I'm sorry.

2 Q Do you know what his position or responsibility
3 would have been in July of 1997?

4 A I believe in that time frame he would have been
5 in our small business market unit as a marketing manager.

6 Q And what about Frank Hatzenbuehler?

7 A Frank Hatzenbuehler was a vice president in our
8 market service organization.

9 Q Is he responsible for costing of product?

10 A Yes.

11 Q How about Mr. Knoebel?

12 A Larry Knoebel I believe was a product manager in
13 the Centrex product group.

14 Q How about Sue Parks?

15 A Sue Parks was a vice president in a large
16 business market unit. And, again, I'm not sure whether she
17 is still with the company or not. I don't know.

18 Q Do you know any of the other people listed in
19 Exhibit 5?

20 A I personally know Judi Hand. Judi Hand now is a
21 vice president in our sales organization in our small
22 business marketing group. In the 1997 time frame she was
23 likely a director for that organization. I know the other
24 names. And, again, I'm not sure. I've never -- I've never
25 worked with them directly.

1 Q All right. Is this memorandum that's Exhibit --
2 first page of Exhibit 5 typical of the kinds of memorandum
3 that people send to each other in Qwest -- in the ordinary
4 course of Qwest business?

5 A I'm sorry. Once again I missed the second part
6 of your question.

7 Q This --

8 A Is this a typical type of memorandum that
9 Qwest --

10 Q Yes. In the ordinary course of Qwest business,
11 do Qwest employees send this kind of memorandum to each
12 other?

13 A I think if issues are policy related type issues
14 that require the attention of a certain audience -- in this
15 case, the audience was at the vice presidential or EVD
16 level -- they'll be documented in writing.

17 Q Take a look please at the presentation which is
18 attached to the memorandum in your Exhibit 5. The same
19 question. Is that presentation the type of thing that
20 Qwest prepares and distributes internally in the ordinary
21 course of its business?

22 A Yes. I see these presentations often. My answer
23 is yes.

24 Q Are you willing to accept subject to check that,
25 indeed, the Metronet anti-trust Court had ATG's Exhibit 5

1 before it and under consideration when it issued the order
2 that's attached to your -- in the testimony?

3 A It would appear so.

4 MR. HARLOW: Your Honor, we offer Exhibit 5.

5 MR. REICHMAN: Your Honor, Qwest has several
6 objections to this exhibit. First, on the grounds of
7 relevance. On the cover page it appears that it relates to
8 proposed prices for Centrex Prime in the states of Arizona,
9 Colorado, Minnesota and Washington.

10 As I understand it, the product that ATG is
11 concerned with in this case is Centrex Plus. Obviously,
12 this is not Arizona, Colorado, Minnesota or Washington.

13 What this Commission is about here is
14 implementing a revenue reduction. And that is what is
15 driving the pricing proposals here. And whatever may have
16 been under consideration in 1997 with respect to a
17 different product in different states doesn't appear to
18 have any relevance to that.

19 Secondly, as I hear the last question, Mr.
20 Harlow's -- ATG seems to be offering this to the extent
21 that it was a document that may have been considered by the
22 Court in issuing the order that Mr. Teitzel has attached to
23 his testimony.

24 And we would suggest that, as Mr. Harlow has
25 pointed out, there were different issues in that case. It

1 was an anti-trust case. It did concern the Washington
2 market. It did concern a different company. Moreover, a
3 decision has been issued by the District Court. Apparently
4 it's on appeal, but a decision has been issued.

5 And we'd suggest that parading in front of this
6 Commission selected documents that may have been in front
7 of the Court really proves nothing and it's really going to
8 be a waste of time and leads this Commission aside to
9 issues that it probably doesn't need to get into. And so
10 that's my concern with this document.

11 ALJ CROWLEY: Mr. Harlow?

12 MR. HARLOW: Thank you, Your Honor. This is
13 really kind of the tip of the iceberg. And I've tried to
14 spend a little more time laying foundation for this
15 document than I had hoped that we'd have to go through for
16 all of the documents. I have roughly five I intend to
17 offer, four or five, from the anti-trust case.

18 And relevance here is clear. Dr. Cornell
19 testified that per location pricing is an abuse of market
20 power. The witness, Mr. Teitzel, disagreed with that and
21 said per location pricing is simply intended to provide
22 discounts for large customers.

23 This document, and particularly the succeeding
24 documents we intend to offer, show that, in fact, per
25 location pricing is intended to restrict resale, contrary

1 to what Mr. Teitzel says and consistent with Dr. Cornell's
2 testimony.

3 And just as an example, the second sentence
4 reads -- may I read the second sentence, Mr. Reichman,
5 without clearly --

6 MR. REICHMAN: I believe. If everyone in here
7 has signed the protective order, you may.

8 ALJ CROWLEY: Yes.

9 MR. REICHMAN: Sure.

10 MR. HARLOW: Okay. So I guess we need to note
11 for the record this is confidential.

12 XXX
13 XXX
14 XXX
15 XXX
16 XXXXXXXXXXXXXXXXXXXXXXX.

17 And then at page 509 there's similar language at
18 the bottom of that presentation. Similar language on page
19 514 referring to pricing at large locations. At the bottom
20 of the slide, last three digits are 514. And 510 as well.

21 In terms of the issue of Centrex Prime not being
22 offered in Oregon, as you'll recall, we laid a foundation
23 that Centrex Prime is costed and priced the same way as
24 Centrex Plus is proposed to be costed and priced in this
25 docket. And that except for the ISDN, that the digital

1 element of prime -- and our focus here is on the analog
2 lines -- that the pricing and the cost basis for Prime and
3 Plus are the same.

4 And so even though this document is specific to
5 Centrex Prime, I will represent to you if my recollection
6 is correct that the later documents are more generic on
7 Centrex.

8 But even as to this one being specific to Centrex
9 Prime, this tends to show that, in fact, at least one of
10 the reasons Qwest had for switching from non-location based
11 pricing, which Mr. Teitzel testified existed in the '80s,
12 to the locational based pricing that exists today in Oregon
13 and that's proposed to be continued in this docket, is to
14 restrict and curtail resale, referred to in some of the
15 documents as arbitrage.

16 So while some of the objections may go to the
17 weight of this evidence, clearly it's relevant and should
18 be admitted to impeach Mr. Teitzel's testimony regarding
19 the purpose of location pricing.

20 ALJ CROWLEY: I am going to let Mr. Reichman's
21 objection give serious question to the weight I give to
22 this document. I am going to admit it subject to you tying
23 it up with the documents that you offer. But I'm certainly
24 aware of the issues that Mr. Reichman has raised here.

25 MR. HARLOW: Thank you, Your Honor.

1 ALJ CROWLEY: Did you offer ATG 4?

2 MR. HARLOW: I didn't. And I don't know that I
3 will need to.

4 ALJ CROWLEY: Thank you.

5 MR. HARLOW: So I'll hold that for now. If I may
6 distribute ATG Exhibit 6, Your Honor?

7 ALJ CROWLEY: All right.

8 MR. HARLOW: Mr. Reichman and I had an off the
9 record discussion. We're going to try to shortcut some of
10 the identification of these documents.

11 Q BY MR. HARLOW: Mr. Teitzel, if I represented to
12 you that ATG 6 was a true and correct copy of the -- of
13 portions of the transcript of the deposition of Mr. Hruska
14 in the Metronet anti-trust case, would you accept that
15 subject to check?

16 A I'd accept that.

17 Q And do you know who Mr. Hruska is?

18 A Yes. Mr. Hruska was a product manager
19 responsible for Centrex services in the early 1990s, as I
20 recall. I can also tell you Mr. Hruska is no longer with
21 the firm.

22 Q I'm sorry. What product did he manage?

23 A Centrex services.

24 Q And do you know who Jim Hilderbrand is?

25 A I believe at the time Dennis managed Centrex

1 services, Jim Hilderbrand was his director.

2 MR. HARLOW: Your Honor, we offer ATG 6 for the
3 same reasons as we just argued with regard to Number 5.

4 MR. REICHMAN: And, Your Honor, I will not
5 continue to object as long as there's an understanding I
6 have a continuing objection. I would, however -- and we'd
7 like to -- I'd like to try to work with Mr. Harlow to speed
8 up entry of these exhibits. But I would like if he can
9 point me to where on Exhibit 4 it indicates that this was
10 submitted to the Court.

11 MR. HARLOW: Yes, Your Honor.

12 MR. REICHMAN: I think I just found it. Item 8.

13 MR. HARLOW: Which number?

14 MR. REICHMAN: It looks like it's Item 8.

15 MR. HARLOW: That appears to be the correct
16 reference number.

17 MR. REICHMAN: And on the understanding that the
18 representation that this is the document that was submitted
19 to the Court, we would merely have our other objections.

20 ALJ CROWLEY: All right. I understand you have
21 an ongoing objection to the series of exhibits.

22 MR. HARLOW: Thank.

23 MR. REICHMAN: Thank you.

24 ALJ CROWLEY: With that understanding, ATG 6 will
25 be admitted.

1 MR. HARLOW: Your Honor, I would like to
2 distribute Number 7.

3 ALJ CROWLEY: All right.

4 MR. HARLOW: This is, likewise, confidential,
5 Your Honor.

6 Q BY MR. HARLOW: You reference on number 4 --
7 it's coming up. Is item Number 35 on Exhibit Number 4 --

8 MR. HARLOW: Again, I'll represent to the Bench
9 that this document was submitted to the Metronet anti-trust
10 court.

11 Mr. Reichman, is that sufficient for your
12 purposes?

13 MR. REICHMAN: Yes. I'm just confirming the
14 document number. Yes, we agree to the authenticity of it.

15 ALJ CROWLEY: And register your ongoing
16 objection.

17 MR. REICHMAN: I do.

18 ALJ CROWLEY: And with that registered, that
19 document is admitted.

20 MR. HARLOW: All right. With that, we can move
21 on to Exhibit 8, Your Honor.

22 MR. HARLOW: And the reference on that is Item 6
23 on Exhibit 4.

24 THE WITNESS: I'm sorry, Mr. Harlow. Which
25 number was this exhibit?

1 Q BY MR. HARLOW: This was ATG memorandum date of
2 June 30, 1993. And I'd like to ask you to identify Tedd
3 Bell.

4 A Mr. Bell was a division manager at U.S. West at
5 this time.

6 Q Any relation to Alexander?

7 A Distant I'm sure. Quite distant.

8 Q What was Mr. Bell's position at that time?

9 A Mr. Bell was a division manager in charge of
10 product management functions for all products, all retail
11 products, at that time in the small business arena.

12 Q And how about Mr. Rieger?

13 A Mr. Rieger, I recall the name. I believe he left
14 the company some years ago. I believe he was a product
15 manager. I don't recall specifically his scope of
16 responsibility.

17 Q Now, do you know what product he managed?

18 A I don't recall.

19 Q 1993 would have predated the introduction of
20 Centrex Prime service; is that correct?

21 A I believe that is correct, yes.

22 Q And 1993 would have been about the time that
23 Centrex Plus was under consideration by the Oregon
24 Commission or maybe it had recently been approved?

25 A Are you asking me was that about the introduction

1 date of Centrex Plus in Oregon?

2 Q Yes.

3 A I'm not certain. I would be guessing. I'm not
4 certain.

5 Q Now, if you would, please, turn to page --
6 document control stamp number ending 974.

7 A I have that page.

8 MR. HARLOW: And I'll represent to you and the
9 Commission that the lines that are blacked out came to us
10 us from Qwest this way. And believe me, I would love to
11 see what that says. But we can't produce a better copy
12 since this is what we were provided.

13 Q BY MR. HARLOW: But I would like to draw your
14 attention on that page to the -- well, first of all,
15 there's an acronym SBG. Does that stand for small business
16 group?

17 A Yes, it does.

18 Q And there's an acronym under Section 9, BGS.
19 Does that stand for business and government services?

20 A Yes, it does.

21 Q And business and government services is large
22 users?

23 A That's correct.

24 Q Does that group include Centrex products?

25 A Typically, yes.

1 MR. HARLOW: All right. With those
2 representations, I would offer Exhibit 8, subject to the
3 continuing objection.

4 MR. REICHMAN: Your Honor, I would have an
5 additional objection, which I won't repeat my continuing
6 objections. I will note that this document dates from
7 1993, which predates passage of the Telecommunications Act
8 of 1996, and which, obviously, introduced requirements of
9 resale of services. And I would assert that for that
10 reason, to the extent that this document addresses resell
11 of Centrex, it lacks relevance, given the fact that the
12 legal scenario was different back then.

13 MR. HARLOW: Your Honor, we certainly agree with
14 that. Qwest was in its rights in trying to restrict,
15 curtail or prohibit retail under law in 1993.

16 But, again, this document reflects that per
17 location pricing, locational based pricing, was the
18 mechanism used at that time to restrict resale of Centrex
19 services. And that pricing that was imposed in 1993 exists
20 today and is being perpetuated by the Qwest proposal in
21 this docket.

22 ALJ CROWLEY: All right. I'll note your
23 objection. Again, Mr. Reichman, I'll admit it.

24 MR. HARLOW: Now, with that we can move onto
25 Exhibit 9, Your Honor. This is the last one from the

1 anti-trust case.

2 Your Honor, I don't recall if we put this on the
3 record, but Mr. Reichman asked to just reference for ATG 8
4 to the ATG 4 list. And it's one of the two documents
5 listed in Item 6 on ATG 4.

6 ALJ CROWLEY: Thank you.

7 Q BY MR. HARLOW: This is a rather lengthy
8 document. But, again, I'll represent to you that this was
9 produced by Qwest in the anti-trust case and was provided
10 to the Court in the anti-trust case. And I'll ask you to
11 accept that subject to check.

12 Oh, and then let me -- just a moment. Before you
13 do that, let me give you the reference number on Exhibit
14 4. It's the second document listed in Item 6 in the ATG 4.

15 MR. REICHMAN: Excuse me. The second document
16 appears to go through document number 011038. And this
17 goes through 011020. Do you know if that was a
18 continuation of this document or something else?

19 MR. HARLOW: I believe that we -- my recollection
20 is we did not attach the entire document.

21 MR. REICHMAN: So this would be incomplete?

22 MR. HARLOW: There was another voluminous
23 document -- well, I mean, the fact of the matter is, it's
24 difficult to say this is a single document. These are
25 produced out of Qwest's files in order, as you can tell on

1 the document control number.

2 I will represent to you that the last number in
3 the series 11020, which is numbered page 30 in the document
4 itself, that's the last page of that document. There was
5 no 31 in that document. There would have been a separate
6 document that followed that that was attached to the Court
7 pleadings.

8 MR. REICHMAN: Because I assume Mr. Harlow is
9 offering it, if I may just say that in addition to our
10 other objections, we would note that it does appear from
11 the description in ATG 4 that this document was longer.
12 And we would also want to reserve the right to supplement
13 it, if necessary.

14 MR. HARLOW: And we agree we would be happy to do
15 that on Qwest's request. Or they can do that. We have no
16 objection to that.

17 ALJ CROWLEY: All right. That's fine.

18 MR. HARLOW: We offer Exhibit ATG 9.

19 ALJ CROWLEY: All right. And we've heard from
20 Mr. Reichman. All right. Thank you. It's admitted.

21 Q BY MR. HARLOW: Can you identify Judette -- this
22 is going to be a tough one to pronounce. Hernachandra?

23 A Yes. It was Hemachandra.

24 Q Hema?

25 A Hemachandra.

1 XXX
2 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

3 Q Do you have any familiarity with ATG and how they
4 operate?

5 A General familiarity.

6 Q Would it be your understanding that ATG is using
7 resale as a vehicle to enter the market and then shifting
8 customers over to its other facilities as a building?

9 A My understanding generally is that ATG is an
10 entity who merged or purchased shared communications at
11 some point in the past. And both entities on a merged
12 basis are now using a form of Centrex resale to provide
13 services to customers.

14 And, yes, I'm also aware that ATG has gone on
15 record as saying they intend to migrate that customer base
16 to a facility based form of local exchange service over
17 time.

18 Q Would you agree that Centrex resale then provides
19 ATG with a low cost entry vehicle to get into the Oregon
20 market?

21 A Yes.

22 Q Would you turn, please, to page of ATG 9,
23 numbered 981. And do you see in the top of the --
24 actually, it's the side of the page if you're looking at
25 the text but the top if you're holding it in book form.

1 But the fax line that shows the date of the fax?

2 A I see a date that appears to be 7-6-93.

3 Q And going back to the first page of ATG 9, the
4 date of that memorandum is also 1993.

5 Do you see that?

6 A Yes, I do.

7 Q All right. At the time, 1993, according to the
8 second sentence of page 981, which reads, "Resale as a
9 primary line of business has been ruled not to be in the
10 public interest in Oregon."

11 Do you see that?

12 A Yes, I do.

13 Q And, again, we established earlier that at this
14 time Qwest had introduced Centrex Plus with the location
15 specific pricing element; is that correct?

16 A I believe I testified that it may have been in
17 that general time frame but I wasn't certain.

18 Q So the lo -- the approval of the locational based
19 pricing mechanism was done in Oregon at a time when Oregon
20 did not feel that resale was in the public interest; is
21 that correct?

22 MR. REICHMAN: Objection. It assumes facts not
23 in evidence.

24 ALJ CROWLEY: Would you like to --

25 MR. HARLOW: I think we've laid the foundation,

1 Your Honor.

2 ALJ CROWLEY: I was trying to make some semantic
3 sense in what was in front of me there. I slipped there.

4 MR. HARLOW: Well, Mr. Teitzel responded that the
5 time frame of this document seems to be 1993.

6 ALJ CROWLEY: Right.

7 MR. HARLOW: He testified earlier that this was
8 the time that Centrex Plus was under consideration in
9 Oregon.

10 ALJ CROWLEY: Let me ask, Mr. Reichman, what
11 you're objecting to?

12 MR. REICHMAN: I think he built into his question
13 a lot of facts that are not true. For example, as Mr.
14 Teitzel said, he's not aware of when it was introduced in
15 Oregon. So he built in there a lot of facts which are
16 contrary to Mr. Teitzel's testimony.

17 ALJ CROWLEY: And your question to Mr. Teitzel
18 was?

19 MR. HARLOW: To agree with the statement that at
20 the time Centrex Plus and the per location pricing scheme
21 was approved, Oregon policy was against resale.

22 ALJ CROWLEY: I'm going to sustain the objection
23 since we don't when know the Centrex Plus was approved.

24 Q BY MR. HARLOW: Do you know when -- are you
25 familiar with Oregon having had a policy against -- a

1 policy that resale was not in the public interest?

2 Were you aware that the Oregon PUC at some point
3 in time did not consider resale was in the public interest?

4 A I recall at one time in Oregon -- I referenced
5 Docket UT 85 earlier. I believe in that docket, Centrex
6 resale and shared tenant type services were considered.
7 And the use of joint user service I believe was the term
8 that was considered.

9 And I believe the Commission at that time did
10 rule that use of those sorts of services for resale was not
11 in the public interest.

12 Q And do you know --

13 A I should augment. I'm not certain whether the
14 use of the term "was in the public interest", but I think
15 that was the concept.

16 Q Do you know if that is still the policy of the
17 Oregon PUC?

18 A I think the frame work -- the competitive frame
19 work, the regulatory frame work is entirely different now.
20 Mr. Reichman mentioned that in this environment we are post
21 Telecom Act of 1996, I think the requirements are wholly
22 different.

23 Q So did the policy of the Oregon PUC change
24 towards resale with the passage of the Telecommunications
25 Act of 1996?

1 XXX
2 XXX
3 XXX
4 XXX
5 XXXXXXXXXXXXXXXXXXXXXXX.

6 MR. HARLOW: All right. Let's go ahead and move
7 onto the next exhibit, Number 10.

8 Q BY MR. HARLOW: Mr. Teitzel, have you ever seen
9 Exhibit ATG 10, that you can recall?

10 A Give me a moment to review this, please.

11 MR. HARLOW: I'll note for the record, we just
12 took excerpts from a hundred plus page order.

13 THE WITNESS: I'm nearly certain that I've seen
14 this. Yes, it's very familiar to me.

15 Q BY MR. HARLOW: Will you accept subject to check
16 that this is a true and correct copy of portions of the
17 Washington Utilities and Transportation Commission order in
18 its docket UT 950200?

19 A Yes. This appears to be three pages from that
20 order.

21 MR. HARLOW: Your Honor, we offer ATG 10.

22 ALJ CROWLEY: Any objection?

23 MR. REICHMAN: Well, I think in addition to some
24 of the other objections we have, we would note that this
25 appears to be three pages from an order in a rate case.

1 I note on the front page that the Commission in
2 Washington rejected the company's request for increased
3 rates and directs it to file tariffs to effect a decrease
4 in rates of \$91.5 million.

5 So in terms of relevance, whatever was ordered
6 here was in the context of a revenue requirement type of
7 proceeding in the state of Washington.

8 I also note that we have a just a couple of pages
9 from the decision. But in terms of the context of it being
10 made in a different rate case and without having a full
11 record, I don't think it really adds much to the
12 Commission's record here.

13 MR. HARLOW: Your Honor, if I may. Mr. Teitzel
14 testified in his rebuttal at page 32 in response to the
15 question, "Have other states in the traditional U.S. West
16 region found Centrex Plus per location discounts to be
17 appropriate", and on line 4 Mr. Teitzel responded yes.

18 And the proffered exhibit shows that, indeed, the
19 Washington Commission, at least in the 1995 rate case,
20 directed Qwest to eliminate the location basis as to
21 Centrex Plus. And so it's directly relevant to the
22 proceeding.

23 We would have no objection to Mr. Teitzel
24 introducing other -- the entire order or other portions of
25 the order.

1 MR. REICHMAN: I would also just note that this
2 appears to be in the context of a history of proceedings in
3 front of the Washington Commission, which may well be
4 different from the history of the proceedings in front of
5 the Oregon Commission.

6 ALJ CROWLEY: I will note your objections, Mr.
7 Reichman. I will admit it.

8 MR. HARLOW: I'm sorry, Your Honor. I can't hear
9 you either now.

10 ALJ CROWLEY: I will note your objections and
11 I'll admit the document.

12 MR. HARLOW: Thank you, Your Honor. With that
13 admission, I'll skip my questions on that and try to get
14 closer to our approximate time.

15 Q BY MR. HARLOW: If you would, please, turn to
16 page 31 of your rebuttal testimony.

17 A I have it up here.

18 Q And you said that other services include UNE-P
19 cable systems and Centrex 21 resale.

20 Do you see that? Do you see those references?

21 A I suggest that options are available such as
22 UNE-P combinations and other options to competitors who
23 compete with Qwest. Is that your question?

24 Q Yes.

25 A I did say that, yes.

1 Q Including those three; UNE-P, cable and Centrex
2 21?

3 A Yes.

4 Q And will you accept subject to check that as a
5 Qwest data request response 02010, Qwest was providing --
6 I don't think this is a confidential number. 3,305 UNE-P
7 lines in Oregon?

8 MR. REICHMAN: Is that a specific data request,
9 Mr. Harlow?

10 MR. HARLOW: 210.

11 MR. REICHMAN: Is it in the exhibits?

12 MR. HARLOW: No.

13 MR. REICHMAN: Can you show it to the witness?

14 MR. HARLOW: I'd be happy to.

15 Q BY MR. HARLOW: Is that the number?

16 A That appears to be the number.

17 Q And I take it you're not able to state any number
18 of lines that are being provisioned by cable providers in
19 the state of Oregon in competition with Qwest?

20 Can you hear me?

21 A I didn't hear you.

22 Q Are you able to provide the number of cable
23 access lines that are being provided in Oregon?

24 A We're aware that cable telephony exists.

25 However, only the cable operators know the precise number

1 of access lines they serve.

2 I would tell you that, however, that I'm also
3 involved in the Section 271 proceeding on behalf of Qwest.
4 And we have asked providers, including cable telephony
5 providers, how many access lines they're currently serving.

6 So Qwest has asked for that information. As of
7 now, I do not have it.

8 Q And I'll bring this up in a second. But CLECs
9 are reselling just 36 Centrex 21 lines in Oregon; is that
10 correct?

11 A That appears to be correct.

12 Q I'd like to go back to the cost basis for the
13 Centrex discounts. And I understand you're not a cost
14 witness and we'll try to keep the questions at a fairly
15 high level.

16 But it's my understanding that Qwest has assumed
17 that for locations with 51 lines or more for costing
18 purposes or for price floor purposes, that a T-1 circuit
19 will be used to serve the customer; is that correct?

20 A That is one of the means that can be used to
21 serve those locations. I believe I testified earlier that
22 it certainly could be a T-1. It could be some kind of
23 subscriber loop carrier system. It could be a large copper
24 cable serving that location.

25 Q Let me just clarify for the next -- for that line

1 of questioning I'm not referring to the actual technology
2 used to provide the service. I'm referring to the costing
3 basis which is contained in Exhibit 219. Just so we're
4 clear.

5 A I am not the cost analyst. I did not develop the
6 cost study that Mr. Brigham referred to in his testimony.
7 However, I would tell you again that the company determines
8 what the most efficient way to serve a customer is at a
9 particular location and uses that most efficient forward
10 looking technology.

11 MR. HARLOW: May I approach with data request
12 response 217?

13 ALJ CROWLEY: Go ahead.

14 Q BY MR. HARLOW: And have you seen this response,
15 Mr. Teitzel?

16 A I do recall seeing this, yes.

17 Q And does that reflect that for the loop portion
18 of Centrex service, that two things were done; first of
19 all, the T-1 price or the DS1 price of \$87.37 was divided
20 by 24 to yield a figure of \$3.64?

21 A That's what is reflected here, yes.

22 MR. REICHMAN: Excuse me. I would just like to
23 note for the record, I believe those are cost figures which
24 are confidential.

25 MR. HARLOW: This is a non-confidential data

1 request response.

2 MR. REICHMAN: Okay. Can you hang on. I stand
3 corrected.

4 THE WITNESS: Let me clarify also. This does say
5 "price floor". It's just to calculate the Centrex plus
6 looped price floor of \$3.64 for locations with 51 or more
7 lines. Qwest divided the Commission approved price of
8 87.37 for a DS1 NAC loop by 24.

9 Q BY MR. HARLOW: Now, DS1 is a high capacity
10 circuit that carries the equivalent of 24 voice grade
11 circuits; is that correct?

12 A That's correct.

13 Q And that's why the divisor was 24?

14 A That's my understanding.

15 Q And now, a DS1 requires muxing (phonetic) or
16 multiplexing equipment, or you might call it concentrating
17 equipment to provide voice grade services; is that
18 correct?

19 A That's true.

20 Q So the other thing that was done to try to
21 determine the price floor was take the muxing cost of
22 \$212.70 and divide that also by 24 to yield a price of
23 \$8.87 -- or I guess a cost or price floor of \$8.87; is that
24 correct?

25 A That information is not in this exhibit for this

1 data request response. Are you looking at something else?

2 Q Turn please to Exhibit 219, at page 4. And we
3 also have --

4 MR. HARLOW: May I approach, Your Honor?

5 ALJ CROWLEY: Yes.

6 MR. HARLOW: Data request 02-004S1.

7 ALJ CROWLEY: Thank you.

8 Q BY MR. HARLOW: Those figures are contained in
9 Qwest's supplement to ATG data request number 4; is that
10 correct?

11 A It would appear so.

12 Q And so you add those two together and that
13 becomes the price floor for the loop element of Centrex
14 service for 51 and over locations?

15 A Yes, that appears to be the calculation.

16 Q Now, you intimated to earlier and I would just
17 like to clarify for the record, a large location doesn't
18 necessarily have to be served by T-1 circuitry in Oregon in
19 order to get the Centrex discounted pricing; isn't that
20 correct?

21 A Yes. I believe I said that the company would
22 assume the most efficient, slash, least cost for the
23 technology to serve that particular customer location.

24 Q Do you recall it being asked in the data request
25 trying to get Qwest to break down how many large locations

1 were served by T-1 and small locations by T-1, and
2 basically you told us you didn't have that data; is that
3 correct?

4 A I don't recall the precise phrasing of the
5 response, but I think that was the general response.

6 Q And, conversely, it's possible that a small
7 location, a location with fewer than 50 lines, could be
8 served by a T-1 by Qwest in Oregon; isn't that correct?

9 A I can think of a situation, for example, there
10 could be a -- we'll say a ten line business customer in a
11 high rise building that is served by fiber by DS1 service
12 or something else. If, in fact, they're in the same
13 physical location, I suppose in that example they could be
14 served on a DS1. But a small business customer on a stand
15 alone basis at a small premise someplace else would not be.

16 Q Sorry for interrupting.

17 Now, T-1 technology comes in 24 circuit or line
18 equivalent increments; isn't that correct?

19 A Yes.

20 Q Why isn't 24 the price break point for the lowest
21 Centrex Plus price?

22 A I was not the product manager who established
23 price break, nor was I the cost manager who examined the
24 cost to determine those breaks.

25 Q Well, apparently those breaks don't align exactly

1 with the cost breaks, do they?

2 A They don't round exactly to those 24 number
3 increments, no.

4 Q Now, you testified earlier that Qwest proposes a
5 price break for Centrex Plus in this docket at 51.

6 Do you recall that?

7 A Yes, I do.

8 Q A customer with hypothetically 51 lines at a
9 location, if they were to be served by T-1, would require
10 three T-1s, would they not?

11 Two times 24 is 48, plus another T-1 for the last
12 three lines.

13 A Again, the company would determine the most
14 efficient way to serve that particular customer. I would
15 assume the most efficient way would not be three T-1s. It
16 would be a concentrate or system. It could be, again,
17 large copper cable.

18 Q Can you identify any additional economies of
19 serving the hundred line customer that support the price
20 break that Qwest proposes at a hundred and one lines?

21 A Again, the presumption is as the volume of
22 customer lines at a physical location increases, there's
23 efficiencies and economies to be had for those customers.

24 Now, whether that break could or should be 100 or
25 120 or 150, I suppose that could be debated.

1 Q Can you point --

2 A I'm sorry.

3 Q Again, I guess I'm getting anxious to finish.

4 I'm sorry.

5 A That's all right.

6 Q Can you point to anything in the cost studies

7 that has been submitted in this docket that support an

8 additional price break at the 101 level?

9 MR. REICHMAN: Again, I just object to the extent

10 that he's not the sponsor of the cost studies in this

11 docket.

12 ALJ CROWLEY: I'll note that.

13 THE WITNESS: Give me a moment, please.

14 In Mr. Brigham's testimony, it appears that the

15 costs were averaged for purpose of calculating a price

16 floor for systems of 51 lines and above. So I don't see a

17 specific cost break out for that category.

18 Q BY MR. HARLOW: So the answer would be no then?

19 A It doesn't appear to be in Mr. Brigham's

20 testimony.

21 Q Do you understand the term "fill factor"?

22 A I understand what that term means, yes.

23 Q So by following the methodology that we described

24 that derived the \$3.64 and the 8.87. Based on assuming 24

25 voice grade circuits being sold over each T-1, that's the

1 equivalent of assuming a 100 percent fill of those
2 facilities; is that correct?

3 A I think that would be the conclusion, yes.

4 MR. REICHMAN: May we go off the record for a
5 moment, Your Honor?

6 ALJ CROWLEY: All right.

7 (Discussion held off the record)

8 MR. HARLOW: We'll distribute ATG Exhibit 11.
9 And now 12, Your Honor. And I believe Qwest is willing to
10 stipulate to their admission.

11 MR. REICHMAN: That's correct.

12 ALJ CROWLEY: All right. They're admitted.

13 MR. HARLOW: We'd offer them.

14 ALJ CROWLEY: They're admitted.

15 MR. HARLOW: They're already admitted? That was
16 fast.

17 MR. JONES: Mr. Harlow, I think we got skipped.
18 Number 12. Thank you.

19 Q BY MR. HARLOW: Mr. Teitzel, if you would please,
20 turn to page 32 of your rebuttal testimony. In particular,
21 lines 9 to 12.

22 A I have that page here. But I'm afraid the line
23 numbers don't correspond exactly.

24 Q All right. Allow me to take a moment to turn to
25 it as well. It's -- I'm sorry. It's page 30. And it's

1 the answer that starts out "Relative to Centrex Plus
2 service".

3 A Yes, I have that.

4 Q Okay. And the second sentence says, "Qwest
5 cannot economically use a T-1 facilities to provide local
6 exchange service to a vicinity or neighborhood."

7 Do you see that?

8 A Yes, I do.

9 Q If a Centrex customer has 51 lines at a location,
10 how can Qwest get to 100 percent fill unless another
11 customer is using the remaining capacity of a third T-1
12 circuit?

13 A Since, as you point out, the T-1 or DS1 services
14 are in increments of 24, clearly you don't get to a hundred
15 percent fill until you hit an increment that matches a
16 multiple of 24. So I would agree with that.

17 I think that as we thought about the pricing for
18 this service, clearly we've considered the least cost
19 technology to serve customers of various sizes. That's
20 driven us to a price point that gets that price point and
21 cost point lower for the larger system sizes to reflect
22 those economies.

23 So I'm not sure that you would get to a hundred
24 percent fill until you got to precisely one of those
25 multiples of 24.

1 Q And do you have any explanation of why the unused
2 capacity isn't part of the cost in the price floor for
3 Centrex as shown in Mr. Brigham's exhibit?

4 MR. REICHMAN: Again, I'll object to the extent
5 that he is not the cost witness.

6 ALJ CROWLEY: Noted.

7 THE WITNESS: And I would respond that way. I
8 did not develop the cost. I'm not sure how they allocated
9 the unused capacity.

10 Q BY MR. HARLOW: In developing your testimony,
11 were you thinking of a neighborhood there or were you
12 thinking of a residential or low density commercial
13 vicinity or were you thinking of a high rise central
14 business district type neighborhood?

15 A As I developed my testimony and considered the
16 manner in which Centrex Plus is priced, I was considering
17 specific addresses, specific locations at which there are
18 large numbers of lines terminated. I was not contemplating
19 that it would be economically efficient to serve a single
20 line barber shop in Salem with a T-1. It would not be.

21 Q So the neighborhood you have in mind would be the
22 type that would have a single line barber shop in it as
23 opposed to a multi-tenant unit, multiple storage, for
24 example?

25 A Again, relative to location discounts, volume

1 discounts in Centrex Plus, it considers, once you get into
2 the hundred line, 300 line plus system size, very large
3 customers that have a large location -- number of access
4 lines at location as opposed to the single line barber shop
5 in Salem.

6 Q Now, if you were serving a large building with
7 multiple tenants, say a high rise in downtown Portland, I
8 take it you might actually bring T-1 in to serve some of
9 those customers?

10 A Some. I think I talked about that example
11 previously. You could have a small customer in a large
12 bank building which is 95 percent occupied by the bank
13 itself. And maybe a ten line business customer may also be
14 there.

15 In that example, that ten line business customer
16 would be served by the same technology as the large bank.
17 But that is the exception as opposed to the rule.

18 Q Would that be an efficient way to serve that
19 customer on a forward looking cost basis?

20 A Certainly.

21 Q Assume hypothetically that the bank doesn't
22 occupy quite all of the block but there was a corner they
23 couldn't buy out that has a restaurant and a law firm and a
24 two-story building perhaps.

25 Is there any technical reason why Qwest could not

1 put the adjoining premise on the same T-1s that are serving
2 the large bank building?

3 A I am not sure I testified that the bank is
4 occupying the block. I think I said a high rise building.

5 Q It's a hypothetical.

6 A It was specific.

7 Q I was using a hypothetical.

8 A Repeat your hypothetical, please

9 Q There's a large bank here. We're building on
10 your hypothetical. The hypothetical is a large bank
11 building that occupies most of the block but there's a two
12 or three-story building on the corner of that same block.
13 And it has a restaurant on the ground floor and a small
14 office on the second floor, for example.

15 Is there any technical reason why Qwest could not
16 serve the smaller building with the same T-1s that were
17 being used to serve the large bank building?

18 MR. REICHMAN: And before he answers, let me just
19 object on the ground that he has not been offered as a
20 technical witness with respect to technical issues in the
21 network.

22 ALJ CROWLEY: To the extent that he can answer.

23 THE WITNESS: I'll answer to the extent that I
24 can. And that is a reasonable caveat, I'm not a network
25 engineer, but I will tell you my experience as an installer

1 both in business and residences.

2 Typically T-1s or large cables enter a large
3 building in the basement and terminate on the frame there.
4 And typically a neighboring building is not served from the
5 basement's terminal in a large building. There's a
6 separate cable that serves that separate building, even
7 though they may be adjoining or two doors apart.

8 Q Now, T-1 facility might typically be a copper
9 looped facility; is that correct?

10 A T-1 can be a copper facility with electronics on
11 the end.

12 Q So would it be fairly typical in your experience
13 as an installer that at that frame in the large building
14 you have a number of copper loops coming in, some would be
15 DS0s, which are plain old business lines, and others could
16 be DS1s, which are T-1 facilities which are muxed?

17 A I would say that would be typical.

18 Q And those copper loops that come in, they go out
19 of the building to a serving area interface; is that
20 correct?

21 A That's a common network design, yes.

22 Q And in the central business district like we're
23 describing with high rise building, would that typically be
24 in a vault just outside the building?

25 A In Portland that's typically a manhole, a vault

1 in the street.

2 Q And typically in the hypothetical where there's
3 also another building on the corner, would the copper loops
4 to the smaller building come into that same vault?

5 A Could be. Again, that could be a splice point
6 and the cable could route through that splice point
7 unbroken or not.

8 Q Now, in the DS0 side of the mux facility on the
9 mux T-1 facility, that's a copper facility; isn't that
10 correct?

11 A It is a copper facility, yes.

12 Q And would you agree that it would be technically
13 feasible to demux the T-1 and take it out of the building
14 on the copper loops, assuming they're spare, to the manhole
15 and then splice them into the smaller premise next door?

16 A I suppose it's technically possible. In my
17 experience, it's not the norm.

18 Q Could that be an efficient way to serve those
19 customers in certain circumstances?

20 A I'm not sure how to answer. I suppose that it
21 could be done. In some instances it may be an efficient
22 way to serve. I would answer, again, it's not the norm, to
23 my understanding.

24 Q When you say it's not the "norm", you mean in the
25 existing network?

1 A Again, I'm not a network engineer. My
2 understanding is that is not the way it's typically done.

3 Q Let's turn briefly to Dr. Cornell's
4 recommendation about eliminating the per location
5 requirement of Centrex prices.

6 Have you done any calculations of revenue effect
7 of that recommendation?

8 A And I'm sorry. What page are you referring to?
9 Are you talking about Dr. Cornell's --

10 Q Dr. Cornell's testimony.

11 A I'm sorry. I didn't understand.

12 Q Do you understand her recommendation in this
13 case?

14 A Generally, yes.

15 Q And that would be to price and give discounts in
16 Centrex Plus service according to the total volume of a
17 customer in a wire center rather than the total volume at a
18 location?

19 A I understand that.

20 Q Have you done any calculations of the revenue
21 effect of that recommendation if it were adopted?

22 A I have not.

23 Q Would you agree that through changing the
24 specific prices in Centrex pricing matrix, that it would be
25 possible to implement that recommendation on a revenue

1 neutral basis?

2 A I would say that since this docket, Docket UT
3 125, is all about achieving a \$64.2 million reduction,
4 prices can be moved around in virtually an infinite
5 combination to achieve the same result.

6 Does that answer your question?

7 Q If that's a qualified yes, then yes.

8 A I have a hard time with the revenue neutral
9 issue. I'm saying we can achieve 64.2 million by
10 redesigning the price plan in this docket.

11 Q In fact, if you raise the number of the specific
12 prices in the Centrex Plus pricing mechanism, without
13 getting into the exact numbers, you could do that and
14 implement Dr. Cornell's recommendation and it would be
15 revenue neutral?

16 MR. REICHMAN: And can I just ask for
17 clarification. When you say "revenue neutral", do you mean
18 that you're redistributing revenue or the revenue
19 reductions among Centrex services or all the retail
20 services?

21 MR. HARLOW: What I mean is it could result in
22 the same revenues from Centrex Plus services as Qwest is
23 recommending.

24 THE WITNESS: I suppose that's mathematically
25 achievable.

1 MR. HARLOW: That's all the questions I have.
2 Thank you for your patience.

3 THE WITNESS: Thank you.

4 ALJ CROWLEY: Thank you. Should we take a short
5 break before you begin?

6 MR. REICHMAN: Please.

7 ALJ CROWLEY: Let's be back in ten minutes.

8 (Recess taken)

9 --ooOoo--

10 REDIRECT EXAMINATION

11 BY MR. REICHMAN:

12 Q Good afternoon, Mr. Teitzel.

13 A Good afternoon.

14 Q Just a few questions for you. Do you have in
15 front of you Exhibit ATG 5?

16 A Yes, I do.

17 Q If I could ask you to look at the first page of
18 that exhibit. In the fourth line I believe Mr. Harlow
19 referred to this specifically where it references the
20 phrase "minimize the arbitrage potential of the 1FB and
21 1FR."

22 If I could ask you to look at that entire
23 paragraph. And then my question is, how do you -- what do
24 you understand to be the arbitrage issue that's being
25 discussed here?

1 A I think in this example they're talking about --
2 in this instance, in this case, Centrex Prime, then a
3 U.S. West service, could be used as a surrogate or a
4 substitute for U.S. West 1FB or 1FR service.

5 Q So, in effect, the arbitrage potential involves a
6 customer choosing between two potential U.S. West services?

7 A In this event both services are provided by
8 U.S. West. Then U.S. West. But Centrex Prime in this
9 example would likely be provided to the end user customer
10 through a reseller. But, yes, they're both U.S. West
11 services.

12 Q And what do you understand to be U.S. West's
13 concern as expressed in here about arbitrage?

14 A I think the essence of the concern is that if a
15 service like Centrex Plus or Centrex Prime in this example,
16 is substituted for another service, such as a 1FB or a 1FR
17 service, flat business or flat residential line, services
18 have completely different cost characteristics.

19 So what typically happens is that a low priced
20 service like Centrex Prime which is priced to recover its
21 costs based on a certain set of assumptions, when that
22 service is used to provide service to a flat business line
23 customer, it may, in fact, in that example be provided
24 below cost.

25 Q Let me ask you to also put in front of you

1 Exhibit ATG 9, please.

2 A I have that.

3 Q And also if you look at the front page, the first
4 page of that document, towards the bottom there are three
5 sort of bullets. The middle one starts out with the
6 phrase, "States will be under pressure to mirror a similar
7 degree of unbundling to avoid substantial price/service
8 arbitrage between states and FCC tariffs."

9 Do you see that?

10 A I see that.

11 Q How do you understand the -- how the term
12 "arbitrage" is being used in that sentence?

13 A Well, in that case I can think of an example such
14 as private line service, which can be priced both out of
15 the intrastate and the interstate tariff. And I believe
16 that if a certain proportion of that service is used to
17 carry traffic on an interstate basis, then the subscriber
18 can purchase that service on the interstate tariff. In
19 fact, that price may be substantially lower than what is
20 available in the intrastate tariff, for a variety of
21 regulatory reasons.

22 So purchase of a service that's classified as an
23 interstate private line service at a low price could be
24 used as an arbitrage mechanism possibly against the private
25 line service price of intrastate level which could be

1 substantially higher priced.

2 So they're both U.S. West or Qwest services but
3 the price is substantially different for a variety of
4 reasons.

5 Q So, again, in that example the concern is that
6 the customer is choosing between two services offered by at
7 that time U.S. West but priced under different
8 jurisdictions, state and federal; is that fair?

9 A That's fair. And, again, the way the customer
10 might do that -- and I don't want to cast aspersions on
11 customers certainly -- but if they reported, for example, a
12 certain proportion of their traffic is intrastate, they may
13 have been able to qualify for the interstate price
14 and in that way arbitrage the intrastate price.

15 Q Moving on. At one point Mr. Harlow was asking
16 you about the different price breaks for Centrex Plus
17 service, the 1 to 20 -- I think it's 1 to 20 actually. And
18 all the different price breaks that you've testified about.

19 Do you recall that line of questioning?

20 A Yes, I do.

21 Q And I believe he asked you some questions as to
22 why did the price breaks not align with the price of T-1.

23 Let me ask you, in establishing prices for
24 Centrex Plus service, what sort of considerations does
25 Qwest give?

1 A Well, I believe I testified previously that Qwest
2 considers the relative costs of serving customers in
3 increasingly large locations, increasingly large business
4 addresses, and considers the least cost of technology of
5 providing service to that customer on a forward looking
6 basis.

7 Q Are there any considerations that relate to the
8 market that Qwest would consider?

9 A Absolutely. And, again, fundamental to Centrex
10 pricing is the thought that the reason that service exists
11 is to compete with very large PBX systems.

12 Q Can you explain for the record what a PBX system
13 is, just so everybody knows that.

14 A A PBX system is a private branch exchange. I
15 think I used an example previously of a large bank in a
16 high rise building in downtown Portland. If that bank has
17 a thousand lines at that location, they would consider as a
18 reasonable customer putting in a PBX system, which is an on
19 premises physical switch, to serve the needs of that
20 building of those premises.

21 And an alternative to that would be Centrex,
22 which has all the switch functionality in the central
23 office, in the Qwest central office, rather than on the
24 premises.

25 So it's important that Qwest price its Centrex

1 service so that it's competitive with that very large PBX
2 system. That's the sole reason Centrex exists today.
3 That's the reason it was developed.

4 Q Towards the end of his questioning, Mr. Harlow
5 was asking you about -- I think he was asking you about
6 alternatives that competitors use. And he mentioned two
7 with specific numbers.

8 The number of UNE-P, which perhaps I should ask
9 you to explain so that we're all clear what that is. Can
10 you explain what UNE-P is?

11 A Yes. UNE-P; it's U-N-E - P stands for unbundled
12 network element/platform. And it's a reassembling or a
13 recombining of unbundled networks into a finished service.

14 Q And I believe you indicated the number of those
15 that were currently sold in Oregon. He also asked you the
16 number of Centrex 21 services that are currently resold.

17 Are there other means that competitors in Oregon
18 can compete with Qwest effectively through the use of
19 Qwest's facilities?

20 A Yes. Resale of other services is certainly
21 available as a means of competing with Qwest.

22 Q And do you have any information as to the number
23 of resold basic exchange lines in the state of Oregon as of
24 today, or relatively current?

25 A It's my recollection that the number of

1 residential and business lines combined is in the
2 neighborhood of 20,000.

3 Q Resold?

4 A Resold residential and business lines.

5 Q And that does not include resold Centrex lines;
6 is that correct?

7 A That's correct.

8 Q And another means of competing, as you've already
9 testified, is unbundled network elements. Now, Mr. Harlow
10 referred you to the number of UNE-P that are outstanding.

11 What is -- is another way of competing for a CLEC
12 to purchase simply unbundled loops from Qwest?

13 A Absolutely. If a CLEC has its own switch, for
14 example, in downtown Portland, they would likely subscribe
15 only to unbundled loops from Qwest. And those would not be
16 UNE-P loops. They're standard UNE loops.

17 Q You wouldn't need the P part if you had your own
18 switch?

19 A Correct.

20 Q What's your understanding as to the current
21 number of UNE loops that are being sold in the state of
22 Oregon?

23 A Again, I don't recall the precise number, but
24 it's in the neighborhood of 50,000 currently.

25 Q And it's 50, 5-0?

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REPORTER'S CERTIFICATE

STATE OF OREGON)
)
County of Polk)

I, SUSAN M. PRICE, Court Reporter and Notary Public for the State of Oregon, do hereby certify:

That the foregoing transcript was taken down by means of stenotype at the time and place therein named, and thereafter transcribed by means of computer aided transcription, and that the foregoing transcript contains a full, true and verbatim record of the said proceedings, pages 708.- 793.

I further certify that I have no interest in the event of the action.

WITNESS my hand this 13th day of June, 2001.



Susan M. Price

Susan M. Price
Court Reporter

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UT 125

RECEIVED

JUN 14 2001

Public Utility Commission of Oregon
Administrative Hearings Division

In the Matter of the Application of)
QWEST CORPORATION for an Increase in)
Revenues.)

DATE: June 1, 2001

TIME: 9:30 a.m.

PLACE: Main Hearing Room
Public Utility Commission
550 Capitol Street NE
Salem, Oregon 97301-2551

BEFORE: Ruth Crowley
Administrative Law Judge

ORIGINAL

VOLUME 5
Pages 708 - 793

Sue Price - Court Reporter (503) 831-2060
PO Box 1041 Dallas, OR 97338

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APPEARANCES

Ms. Ruth Crowley, Administrative Law Judge;
Mr. Brooks Harlow, NWPA and ATG;
Mr. Jason Jones, PUC Staff;
Ms. Lisa Rackner, WorldCom;
Mr. Lawrence Reichman, Qwest;
Mr. Mike Weirich, PUC Staff.

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I N D E X (cont.)

2	<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
3	<u>FOR PUC STAFF:</u>		
	Thomas Turner	Direct by Mr. Weirich	260
4		Cross by Mr. Reichman	261
		Cross by Mr. Trincherro	290
5		Cross by Mr. Manifold	289
		Redirect by Mr. Weirich	294
6		Recross by Mr. Reichman	296
7	<u>FOR AT&T:</u>		
	Arlene Starr	Direct by Mr. Trincherro	298
8		Cross by Mr. Reichman	300
		Redirect by Mr. Trincherro	334
9			
	<u>FOR QWEST:</u>		
10	Scott McIntyre	Direct by Mr. Reichman	337
		Cross by Mr. Trincherro	342
11		Redirect by Mr. Reichman	379
		Recross by Mr. Trincherro	384
12			
	<u>FOR WORLDCOM:</u>		
13	Anthony DiTirro	Direct by Ms. Hopfenbeck	387
		Cross by Mr. Reichman	388
14		Redirect by Ms. Hopfenbeck	404
		Recross by Mr. Reichman	406
15			
	<u>FOR PUC STAFF:</u>		
16	Lance Ball	Direct by Mr. Jones	414
		Cross by Mr. Reichman	415
17		Cross by Mr. Manifold	437
		Cross by Mr. Trincherro	440
18		Redirect by Mr. Jones	443
		Recross by Mr. Reichman	446
19			
	Cynthia Van Landuyt	Direct by Mr. Weirich	452
20		Cross by Mr. Reichman	453
		Cross by Mr. Trincherro	470
21		Redirect by Mr. Weirich	473
		Recross by Mr. Reichman	475
22			
	<u>FOR AARP:</u>		
23	Dr. Pamela Cameron	Direct by Mr. Manifold	476
		Cross by Mr. Reichman	479
24		Cross by Mr. Weirich	498
		Cross by Mr. Trincherro	503
25		Redirect by Mr. Manifold	504

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2
3
4
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I N D E X (cont.)

<u>WITNESS</u>	<u>EXAMINATION</u>	<u>PAGE</u>
<u>FOR PUC STAFF:</u>		
Jim Stanage	Direct by Mr. Jones	506
	Cross by Mr. Reichman	507
	Cross by Mr. Manifold	525
	Recross by Mr. Reichman	533
<u>FOR QWEST:</u>		
David Teitzel - PAL issues		
	Cross by Mr. Harlow	540
	Redirect by Mr. Reichman	628
	Recross by Mr. Harlow	635
David Teitzel - Centrex issues		
	Cross by Mr. Harlow	637
	Redirect by Mr. Reichman	701
	Recross by Mr. Harlow	708
<u>FOR NWPA:</u>		
Don Wood	Direct by Mr. Harlow	709
	Cross by Mr. Reichman	714
	Redirect by Mr. Harlow	760
	Recross by Mr. Reichman	764
<u>FOR ATG:</u>		
Dr. Nina Cornell	Direct by Mr. Harlow	765
	Cross by Mr. Reichman	767
	Redirect by Mr. Harlow	785
	Recross by Mr. Reichman	788
	Redirect by Mr. Harlow	790
	Recross by Mr. Reichman	791

--ooOoo--

E X H I B I T S

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 201	Teitzel direct testimony -----	52
Qwest 202	(Teitzel) Basic Exchange Pricing Summary Residential (Confidential) -----	52
Qwest 203	(Teitzel) Basic Exchange Pricing Summary Business (Confidential) -----	52
Qwest 204	(Teitzel) Extended Area Service (Confidential) -----	52
Qwest 205	(Teitzel) Centrex Plus Services (Confidential) -----	52
Qwest 206	(Teitzel) Vertical Features/services (Confidential) -----	52
Qwest 207	(Teitzel) Listing Services (Confidential) --	52
Qwest 208	(Teitzel) IntaLATA Long Distance Services (Confidential) -----	52
Qwest 209	McIntyre Direct Testimony -----	342
Qwest 210	(McIntyre) Private Line Diagram -----	342
Qwest 211	(McIntyre) Oregon Analog Private Line Proposal (Confidential) -----	342
Qwest 212	(McIntyre) Oregon Digital Data Proposal (Confidential)-----	342
Qwest 213	(McIntyre) DS1 Service Proposal (Confidential) -----	342
Qwest 214	(McIntyre) Switched Access Network Diagram -	342
Qwest 215	(McIntyre) Current Switched Access Price Structure -----	342
Qwest 216	(McIntyre) Proposed Switched Access Price Structure -----	342
Qwest 217	(McIntyre) Oregon Switched Access Proposal -	342
Qwest 218	Brigham Direct Testimony -----	6

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Qwest 219	(Brigham) Summary of Selected Rate Design Proposals (Confidential) -----	6
Qwest 220	(Brigham) Deaveraged Loop Zones Qwest-Oregon -	6
Qwest 221	(Brigham) Oregon Residence Access Line NRC Study (Confidential) -----	6
Qwest 222	Teitzel Rebuttal Testimony -----	52
Qwest 223	(Teitzel) Verizon responses to Qwest data requests -----	52
Qwest 224	(Teitzel) Staff responses to Qwest data request 11 -----	52
Qwest 225	(Teitzel) Metronet v. Qwest, granting Qwest's motion for summary judgment -----	52
Qwest 226	Banerjee Rebuttal Testimony -----	129
Qwest 227	(Banerjee) Qualifications -----	129
Qwest 228	Bailey Rebuttal Testimony -----	536
Qwest 229	McIntyre Rebuttal Testimony -----	342
Qwest 230	Brigham Rebuttal Testimony -----	6
Qwest 231	(Brigham) New Mexico Proceedings transcript -	6
Qwest 232	Supplemental Responses to Qwest's Second Set Data Requests (Confidential) -----	194
Qwest 233	Draft from UT85 of Toll, Access, Custom Calling Rates -----	279
Qwest 234	Article by Armando Levy - Semi-Parametrics Estimates -----	281
Qwest 235	WorldCom's Responses to Qwest's first set of Data Requests (Confidential) -----	401
Qwest 236	WorldCom's Responses to Qwest's third set of Data Requests (Confidential) -----	401

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
Staff 13	Sloan Direct Testimony -----	414
Staff 14	(Sloan) Non-confidential exhibits in support of direct, pp. 1-12 -----	414
Staff 15	(Sloan) Pages 2-12, exhibits to Sloan testimony issues (Confidential) -----	414
Staff 16	Stanage Direct Testimony (EAS; Advanced services, business and residential local exchange access; residential NRC) -----	516
Staff 17	(Stanage) Qualifications -----	506
Staff 18	(Stanage) Non-confidential exhibits in support of direct, pp. 1-8 -----	506
Staff 19	(Stanage) Exhibits in support of direct (Confidential) -----	506
Staff 20	Turner Rebuttal Testimony -----	260
Staff 21	(Turner) Status Report in UM 962 Wholesale Discounts -----	260
Staff 22	Two pages, CALLS Analysis -----	500
--ooOoo--		
AARP 1	Cameron Direct Testimony -----	479
AARP 2	(Cameron) Qualifications -----	479
AARP 3	Cameron Rebuttal Testimony -----	479
--ooOoo--		
ATG 1	Cornell Direct Testimony -----	766
ATG 2	(Cornell) Qualifications -----	766
ATG 3	ATG's Request 03-019 to Qwest -----	654
ATG 4	(Not offered)	
ATG 5	Centrex Prime Pricing (Confidential) -----	664

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
ATG 6	Excerpt of Dennis Hruska Deposition, Metronet v. U.S. West -----	667
ATG 7	Centrex Prime Issues (Confidential) -----	667
ATG 8	Small Business Basic Exchange Service, Key Beliefs and assumptions - Tedd Bell (Confidential)-----	679
ATG 9	High level impacts of ONA resale from Judette Hemachandra to Mark Reiger (Confidential) --	672
ATG 10	Fifteenth Supplemental Order, Docket UT-950200 -----	683
ATG 11	ATG's Request 02-014 to Qwest -----	692
ATG 12	ATG's Request 02-004S1 to Qwest -----	692
	--ooOoo--	
AT&T 1	Starr Direct Testimony -----	299
AT&T 1	Starr Direct Testimony (Confidential) -----	299
AT&T 2	(Starr) Response to Data Request 003 -----	299
AT&T 3	(Starr) Comparison of Qwest intrastate rates to FCC interstate rates -----	299
AT&T 4	(Starr) Response to Data Request 006,007 ---	299
AT&T 5	(Starr) Response to Data Request 002 -----	299
AT&T 6	(Starr) Response to Data Request 001 -----	299
AT&T 7	(Starr) Qwest proposed Oregon intrastate rates, percent markup over UM 844 -----	299
AT&T 8	(Starr) Present Market Structure -----	299
AT&T 9	Data Request Response 02-025 -----	101
AT&T 10	Draft Proposed Amendments HB 2659 -----	101
AT&T 11	Data Request Response 04-026 (Confidential)	167

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
AT&T 12	Data Request Response 04-027 (Confidential)	167
AT&T 13	Data Request Response 04-028 -----	167
AT&T 14	Data Request Response 04-037, Article by Rappaport -----	167
AT&T 15	Qwest's Form 10Q -----	353
AT&T 16	Data Request Response 04-040 -----	376
--ooOoo--		
AT-W 1	Selwyn Direct Testimony -----	185
AT-W 1	Selwyn Direct Testimony (Confidential) -----	185
AT-W 2	(Selwyn) Qualifications -----	185
AT-W 3	(Selwyn) Percent Change in California Residence and Business MTS Rates -----	185
AT-W 4	(Selwyn) Percent Change in Residence MTS per Qwest's Proposal -----	185
AT-W 5	(Selwyn) Revised Toll Imputation Calculation (Confidential) -----	185
--ooOoo--		
NWPA 1	Wood Direct Testimony -----	710
NWPA 1	Wood Direct Testimony (Confidential) -----	710
NWPA 2	(Wood) Qualifications -----	710
NWPA 3	(Wood) Proposed PAL Rates (Confidential) -----	710
NWPA 4	(Wood) Alternative Proposed PAL Rates (Confidential) -----	710
NWPA 5	Response to Data Request 03-008 -----	574
NWPA 6	Response to Data Request 03-011 -----	581
NWPA 7	Response to Data Request 04-039 -----	582

E X H I B I T S (cont.)

<u>NUMBER</u>	<u>IDENTIFICATION</u>	<u>RECEIVED</u>
NWPA 8	Response to Data Request 04-037	----- 588
NWPA 9	Response to Data Request 04-040	----- 595
NWPA 10	Response to Data Request 05-053	----- 596
NWPA 11	Response to Data Request 05-050	----- 618
NWPA 12	Response to Data Request 03-035	----- 623
NWPA 13	Response to Data Request 03-021 (Confidential)	----- 626
NWPA 14	Response to Data Request 03-030	----- 626
NWPA 15	Response to Data Request 04-036	----- 627

--ooOoo--

WorldCom 1	DiTirro Direct Testimony	----- 388
WorldCom 2	Selwyn Direct Testimony	----- 19
WorldCom 3	(Not admitted)	
WorldCom 4	Response to Data Request 03-022	----- 96

--ooOoo--

1 A Yes, 50,000.

2 Q Thank you.

3 MR. REICHMAN: Nothing further, Your Honor.

4 ALJ CROWLEY: Thank you. Mr. Harlow?

5 --ooOoo--

6 RECROSS EXAMINATION

7 BY MR. HARLOW:

8 Q Just one question, Mr. Teitzel, relating to your
9 number of resold residence and business loops in excess of
10 20,000. I would just like a comparison with the number of
11 resold Centrex lines.

12 Would you agree with me, off the top of your head
13 if you could, that that exceeds 30,000?

14 A I agree that the resold Centrex lines are larger
15 than 30,000, yeah.

16 Q Thank you, Mr. Teitzel.

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

18 ALJ CROWLEY: Any follow up?

19 MR. REICHMAN: No.

20 ALJ CROWLEY: Mr. Teitzel, you're excused as a
21 witness.

22 THE WITNESS: Thank you very much.

23 ALJ CROWLEY: Thank you.

24 MR. HARLOW: Your Honor, we would like to call
25 Mr. Wood on behalf of Northwest Payphone Association.

1 ALJ CROWLEY: Okay. Would you raise your right
2 hand.

3 (Witness sworn by the Administrative Law Judge)

4 ALJ CROWLEY: Please be seated and state and
5 spell your name for the record.

6 THE WITNESS: My name is Don J. Wood; W-o-o-d.

7 ALJ CROWLEY: Thank you. Mr. Harlow?

8 MR. HARLOW: Thank you, Your Honor.

9 --ooOoo--

10 DON J. WOOD.

11 Thereupon called as a witness on behalf of NWPA, first duly
12 sworn, was examined and did testify as follows:

13

14 DIRECT EXAMINATION

15 BY MR. HARLOW:

16 Q Mr. Wood, do you have before you Exhibits NWPA 1,
17 NWPA 2, NWPA 3, and NWPA 4?

18 A Yes, I do.

19 Q And did you prepare the testimony that was
20 contained in Exhibit NWPA 1, or was it prepared under your
21 supervision?

22 A I did, yes.

23 MR. HARLOW: Your Honor, I offer Exhibits NWPA 1
24 through NWPA 4.

25 ALJ CROWLEY: All right. And Qwest had some

1 objection to parts of Mr. Wood's testimony, which I
2 overruled. So hearing no further objections, NWPA 1
3 through 4 are admitted.

4 Q BY MR. HARLOW: Mr. Wood, do you have any
5 corrections to your prefiled testimony?

6 A I have a correction to what's labeled as NWPA 3.

7 Q Would you please explain?

8 A Yes. What's labeled as Column C is then
9 denominated "proposed rate by rate group" followed by a
10 parenthetical. And in that parenthetical is Exhibit 3.
11 Since we renumbered the exhibits, we need to strike
12 "Exhibit 3" and insert "NWPA 4" in that parenthetical to
13 properly describe that column.

14 Q Do you have any other corrections to note to your
15 prefiled testimony?

16 A Yes. Based on the responses to the data
17 requests -- Qwest's responses to NWPA's request, I believe
18 it's 03-008, they indicated that Qwest Exhibit 223 was the
19 proper basis for both the TSLRIC, the imputed floors, and
20 the proposed prices. And, in fact, I did use that
21 information to prepare NWPA 3 and 4. Since those were not
22 updated, I continued to rely on that information.

23 It's my understanding that their revised proposal
24 is now set forth in a new exhibit, Qwest 219. And it would
25 be appropriate not to change any of the methodology on

1 XXX
 2 XXX
 3 XXX
 4 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

5 MR. HARLOW: That would be the end of the
 6 confidential portion.

7 Q BY MR. HARLOW: I take it you could do the same
 8 calculations for the other pages of NWPA 4?

9 A Yes. You would make exactly the same updates
 10 based on exactly the same information. The methodology, if
 11 you will, that's set forth in the descriptions in the boxes
 12 across the top of the page does not change at all. But the
 13 cost of those price numbers do change on the updated
 14 exhibit. And because of the fairly dramatic increases in
 15 some of the rate zones in the new costs, we cut the
 16 universal service dynamic that comes into play as well.

17 MR. HARLOW: Thank you. Mr. Wood is available
 18 for cross, Your Honor.

19 ALJ CROWLEY: Thank you. Mr. Reichman?

20 --ooOoo--

21 CROSS EXAMINATION

22 BY MR. REICHMAN:

23 Q Good afternoon, Mr. Wood.

24 A Good afternoon.

25 Q If I could just try to understand some of the

1 corrections you just went through.

2 A Sure.

3 ALJ CROWLEY: Are we in confidential numbers
4 again?

5 MR. REICHMAN: Not yet. Thank you.

6 ALJ CROWLEY: Thank you.

7 Q BY MR. REICHMAN: You said that you had -- that
8 the numbers that were originally in here were based on
9 Exhibit Qwest 223. That's the version that was filed in
10 November of '99, correct?

11 A I believe that's right. That's the version --
12 that's the exhibit that's referenced in your data request
13 responses to sets 3. I believe sets 3 and 4. At least in
14 set 3-008 specifically. And that was never updated to
15 reflect the different exhibit, so I relied on what you had
16 filed, which was the reference to Exhibit 233.

17 Q And the data request response to data request
18 03-008 was served in June of 2000, correct?

19 A I believe that's right.

20 Q And were you aware that Qwest filed updated
21 testimony in November of 2000 when you prepared this
22 testimony?

23 A I was aware that Qwest had refiled a significant
24 portion of this -- of its case. I was also aware that we
25 had an outstanding request, or NWPA did to Qwest, to update

1 any information in those data request responses that might
2 need to be updated.

3 So I was relying on the latest version of the
4 responses that I had. And then, obviously, subsequent to
5 this time I became aware that fairly significant cost
6 changes had been introduced and rate proposed changes had
7 been introduced in Exhibit 219 that have been refiled.

8 Q When you prepared your testimony, did you have
9 Exhibit 219, the current Exhibit 219?

10 A I don't know.

11 Q You don't know?

12 A I was not looking for it because your response to
13 3-008 directed me to Exhibit 223, which I did have.

14 Q And you referred to some duty to update. Where
15 do you get that from?

16 A Well, I don't think I referred to a duty. I
17 think I referred to a request.

18 Q Request. Where did you get that from?

19 A The request -- the data requests that were served
20 on Qwest, and I guess on U.S. West originally, that were
21 filed by NWPA had an ongoing request for an update of
22 information contained in the response that needed to be
23 updated.

24 Q By the time you filed your testimony, Qwest had
25 actually replaced all of the testimony that they had filed

1 in November of '99, correct?

2 A Well, I know it had refiled portions of the
3 case. I can't speak to whether it had replaced every piece
4 of testimony.

5 Q Okay. You were not aware of that? You were not
6 aware that Qwest had completely replaced its direct filing?

7 A No. If you're representing to me that the filing
8 had been completely replaced, no, I was not aware of that.

9 Q Okay. Now, in going through these numbers,
10 Column E, I'm curious about something. Column E is the --
11 in effect, that's the imputed price floor, correct?

12 A That's correct.

13 Q And, in effect, that is the sum of the UM 844
14 building blocks; is that correct?

15 A Well, that's partially correct.

16 Q What else goes into the price floor?

17 A It is the sum of all the building block
18 components, the direct cost of all those building block
19 components, plus a level of shared and common costs or a
20 loading for shared and common cost that the Commission had
21 deemed to be appropriate.

22 Q Well, in establishing prices for building blocks
23 in UM 844, indeed, the Commission took the costs,
24 added some shared and common costs and came up with prices.

25 Are you aware of that?

1 A Well, I was with you up until "prices". But in
2 terms of a price floor, yes, it is a sum of direct shared
3 and common that the Commission deemed to be appropriate.

4 Q Now, why is it that you believe that the bench
5 mark of \$21 is relevant and is a substitute for the price
6 floor in Column E for rate groups 2 and 3?

7 A Well, it's a substitute for the total of the
8 direct shared and common costs that an entity purchasing a
9 service from Qwest would be required to pay based on the
10 conclusion in UM 731, Phase IV.

11 Q Can you say that again? Can you say that again?

12 A I'll try.

13 Q You went kind of fast for me at this hour.

14 A Okay. \$21 is my understanding, based on UM 731,
15 Phase IV, is the total of the direct shared and common
16 costs and, therefore, the rate that an entity purchasing
17 local service from Qwest would be required to pay.

18 Q So you understand --

19 A In other words, beyond -- it was for costs that
20 had been established beyond that amount, the universal
21 service funding would come into play in conjunction
22 with the amount paid by the end user to total the direct
23 shared and common costs associated with the rate element.

24 Q So is it your understanding that no customer for
25 basic service can pay more than \$21 under this Commission's

1 universal service orders? Is that what you're saying?

2 A I think it initially established a bench mark of
3 \$21 a month for all types of telephone lines.

4 Q Is it your under --

5 A I believe also that applies to CLECs purchasing
6 UNEs in terms of the total costs that they would pay.

7 Q You believe that that \$21 is a cap for prices for
8 basic services; is that what you're saying?

9 A For the amount -- for the portion contributed by
10 the end user. That's my understanding.

11 Q So that no end user in Oregon can be required to
12 pay more than \$21 for basic service; is that what your
13 understanding is?

14 A That with the amount contributed by an intrastate
15 universal service fund would total the total of the cost
16 demonstrated by Qwest in terms of direct shared and common.

17 Q So are you suggesting that no Oregon customer for
18 basic service can be required to pay more than the
19 difference between \$21 and the amount that that carrier
20 would receive from the universal service fund?

21 A No.

22 Q Okay. And I'm confused. You seem to be
23 suggesting that this \$21 is a cap of some sort of prices.
24 And I'm just trying to understand what that is.

25 A Sure.

1 Q And if I'm misunderstanding you, please correct
2 me.

3 A Okay. Sorry. Did you have a question?

4 Q Well --

5 ALJ CROWLEY: Can you explain your understanding
6 of the way the \$21 bench mark functions with respect to --

7 Q BY MR. REICHMAN: Prices for basic services.

8 A Yes. There's a bench mark price of \$21 for basic
9 service.

10 Q And how does that function in terms of the prices
11 that customers can be required to pay in the state of
12 Oregon?

13 A Well, that corresponds to price -- the
14 contribution from end users toward Qwest's cost recovery.

15 Q So that no -- is it correct, it is your
16 understanding that no Qwest customer can be required to pay
17 more than \$21 a month for basic service out of their
18 pocket?

19 A I don't know about "can be required". That's my
20 understanding of the mechanism that is the bench mark
21 mechanism set forth in the USF order, that there's a
22 combination of sources of cost recovery.

23 Q And then with respect to other carriers, you
24 seemed to say that this \$21 has significance in the price
25 that CLECs pay Qwest.

1 Did I understand that correctly?

2 A Yes.

3 Q And how do you understand that this \$21 operates
4 in terms of what CLECs pay Qwest for either resold --
5 services for resale or UNE purchases?

6 A Well, there's two ways to go about it. One is to
7 allow a CLEC as a facilities based carrier to purchase UNES
8 at a level of total cost, but then would be entitled to
9 funding from the universal service fund to recover the gap
10 in the cost, to bridge the gap, if you will.

11 The other way is to adjust the rate for the UNES
12 up front and not allow the CLEC to obtain funding directly
13 from the fund. The mathematical result is the same either
14 way.

15 Q So your understanding is that a CLEC purchasing
16 UNES from Qwest would not pay more than \$21 based upon
17 the -- what it pays Qwest and whatever it may receive from
18 a universal service funding, that the net of that would be
19 not more than \$21?

20 A That's the bench mark, yes.

21 Q Okay. Now, assume for me -- with me, if you
22 would, that the price for business service, basic business
23 service, 1FB, is \$26.

24 A All right.

25 Q Now, if that's resold at a -- you're aware of the

1 wholesale discount or the resale discount required under
2 the act?

3 A Yes, I am.

4 Q Now, let's say there's a -- let's say an
5 interconnection agreement has a discount rate of ten
6 percent.

7 A All right.

8 Q So the discount would be \$2.60?

9 A That's right.

10 Q And I could do the math in my head even though
11 I'm not an economist. Would that be approximately \$23.40?

12 A It would.

13 Q Thanks. So are you saying -- is it your
14 understanding of the state of the law in Oregon since the
15 universal service order has come out that a CLEC in that
16 circumstance would only pay \$21 for that resold 1FB?

17 A No. Because the CLEC would not be a facilities
18 based carrier if it's reselling. And universal service
19 would not apply to a non-facilities based carrier.

20 Q It wouldn't?

21 A No.

22 Q That's your understanding of this Commission's
23 order?

24 A Well, that's my understanding of the requirements
25 from -- that came down in the beginning of the act through

1 the FCC that spells out very clearly who is entitled to
2 universal service funding. And facilities based carriers
3 are a carrier that is reselling a service may or may not
4 qualify as a facilities based carrier for other reasons but
5 they don't qualify for a facilities based carrier by virtue
6 of reselling a service.

7 Q So your understanding is based upon the federal
8 universal service program; is that correct?

9 A No. My understanding is based on the act. There
10 is a federal and in some states an intrastate universal
11 service program.

12 Q But you're -- what you've just explained is based
13 upon the federal universal service program?

14 A No, sir. What I've just explained is based on
15 the act.

16 Q The act, you mean the Federal Telecommunications
17 Act of 1996?

18 A Yes. Which has implications both for federal and
19 state rates.

20 Q Do you know whether the universal service program
21 under Oregon law requires that you be facilities based to
22 draw from the fund?

23 A I don't know. It didn't impact my analysis
24 here.

25 Q Thanks for explaining that.

1 Mr. Wood, in your testimony you state that the
2 number of payphones in Oregon has decreased over the past
3 four years, correct?

4 A I'm not sure. Do you have a reference?

5 Q Yes, I sure do. Page 8, line 7.

6 A Yes, I did. Yes, I was comparing that to the
7 growth in the cellular subscription.

8 Q Well, you do make the absolute statement that the
9 number of payphones has decreased, correct?

10 A Yes.

11 Q And, in fact, in the question that you're
12 responding to there, you state -- you refer to the, quote,
13 diminishing base of payphones, closed quote, correct?

14 A That's right.

15 Q Now, isn't it true that the number of payphones
16 operated by NWPA members in Oregon has actually increased
17 over the past four years?

18 A By NWPA members specifically?

19 Q Yes.

20 A I don't know.

21 Q You don't know?

22 A I wasn't referring to any -- I wasn't singling
23 out any particular provider or group of providers.

24 MR. HARLOW: The same request of Mr. Reichman.
25 What is the date of this document?

1 MR. REICHMAN: I'll need one minute to ascertain
2 that. I don't know that it's relevant because it refers
3 to -- and I won't reference a confidential number.

4 Well, I guess it is relevant. Give me one
5 moment. Give me one moment.

6 Give me another moment. At this moment I'm
7 actually at a loss. I have the original of the response to
8 this that I received with a cover page. There's -- it's
9 not dated. It's not signed. There's no certificate of
10 service and we didn't date stamp it.

11 So at this moment, I can't answer it. I can
12 certainly supply that because I would have -- I could
13 supply the date that we served it and then we presume then
14 that you responded within ten days, that would help us.

15 MR. HARLOW: If that could be provided, I would
16 not object to the use of this exhibit.

17 MR. REICHMAN: Thank you. Can we provide that
18 next week?

19 ALJ CROWLEY: Yes, as far as I'm concerned. And
20 I have it as Qwest 239.

21 MR. REICHMAN: Thank you very much, Your Honor.

22 Q BY MR. REICHMAN: Mr. Wood, do you have in front
23 of you Exhibit Qwest 239?

24 A Yes.

25 Q And do you recognize this to be Northwest

1 Payphone Association's response to Qwest's data request
2 number 1-003?

3 A Yes, I do.

4 XXX
5 XXX
6 XXX
7 XXX
8 XXX
9 XXX
10 XXX
11 XXX
12 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

13 That ends the confidential portion. We would move the
14 admission of Exhibit Qwest 239.

15 MR. HARLOW: No objection.

16 ALJ CROWLEY: It's admitted subject to you
17 supplying a date for us.

18 MR. REICHMAN: Thank you.

19 Q BY MR. REICHMAN: So, indeed, the number of
20 payphones operated by NWPA members has actually increased
21 over the last several years, correct?

22 A No, I don't think we can assume that at all.

23 Q Why not?

24 A Well, we've got an unspecified date versus 1997.
25 These are total numbers for all NWPA members, and we don't

1 know how the size of the NWPA membership in terms of
2 companies has changed there. It's a period here.

3 So we don't know -- this really tells us nothing
4 about the total numbers of payphones in the state, which is
5 what I reference in my testimony. And it really doesn't
6 even tell us whether NWPA members are gaining or losing
7 phones.

8 Q Where did --

9 A Certainly the national trend has been a
10 significant decrease in the number of phones.

11 Q Did you do any study about the number of
12 payphones in Oregon over the last several years?

13 A Only looking at the data here and one other
14 source. I cannot tell you off the top of my head what it
15 was.

16 Q So you're saying you looked at national data, is
17 that what I understand?

18 A Certainly I've been involved in this industry
19 nationally, and I'm fully aware of the national basis
20 decreasing over ten percent a year.

21 Q You're not referring to any Oregon figures, are
22 you?

23 A No. I'm referring to the total amount in
24 Oregon. I'm not referring to the total amount served by
25 any given provider in Oregon.

1 Q If you look at Exhibit Qwest 239, the first page,
2 the first part says, "For each such member identified in
3 response to request number 1, please indicate the number of
4 payphones operated in Qwest corporation's, formerly known
5 as U.S. West, allocated service area in Oregon as of year
6 end 1997 and the total number each operates today."

7 Let's stop there. There is no identification in
8 the response broken down by each member of the association,
9 is there?

10 A No. In fact, the response indicates that the
11 NWPA does not collect the information in the ordinary
12 course of business with regard to a company by company
13 count.

14 Q Now, the second sentence in this sentence states,
15 "If this data is not available, please provide the number
16 of payphones operated in the state of Oregon versus just
17 those in Qwest's Oregon service area."

18 That information is not provided, is it?

19 A That's correct.

20 Q But you seem to have some of that information?

21 A Well, no. I stand corrected. The response on
22 the next page refers to the number of phones operated in
23 Oregon. So this appears at least to be a response to the
24 question that you just read.

25 Q Well, but this is only because, as you pointed

1 out, the number operated by NWPA members; is that correct?

2 A That's correct. Just what I understood this
3 request to be asking for. And the question that you just
4 read --

5 Q Well, the question I just read --

6 A -- asks for it company-wide, which appears to be
7 what is here.

8 Q Let's read this carefully. The second question
9 says, "If data isn't available, please provide the number
10 of payphones operated in the state of Oregon."

11 That doesn't say by NWPA members, does it?

12 A No. Although apparently that's how it was read
13 because that's how it was responded to on the second page.

14 Q And, indeed, the third one says, "If this data is
15 not available for each member, please provide it for any
16 member that has the information or for the NWPA membership
17 in total."

18 So it seems that what we have is the third
19 alternative, the NWPA membership in total, correct?

20 A Yes, for the entire state. The problem here is
21 that even if each NWPA member had lost ten percent of its
22 phones during the period between 1997 and the unknown date
23 here, if the NWPA had picked up a couple of member
24 companies of any size at all or had an increase in the size
25 of association phones, there still would be a decrease in

1 the number of phones operated by each provider and a
2 decrease in the total number of phones in the state. And
3 that would certainly be my consistent with my experience.

4 Q If I could ask you turn to page 28 of your
5 testimony.

6 A Yes.

7 Q Lines 1 to 7, you discuss Qwest's responses to
8 NWPA's data requests?

9 A Yes, sir.

10 Q And you assert that Qwest, quote, has stated that
11 it need not demonstrate the compliance of its proposed PAL
12 rates with the act and the FCC's payphone orders.

13 Do you see that?

14 A Yes, I do.

15 MR. REICHMAN: Your Honor, I'd ask to have that
16 marked as Exhibit Qwest 240, please.

17 ALJ CROWLEY: It's done.

18 Q BY MR. REICHMAN: Mr. Wood, you have in front of
19 you what's been marked Exhibit Qwest 240. Does this appear
20 to be Qwest's response to NWPA data request 03-033?

21 A It does.

22 Q And I think we've established earlier that the
23 responses to NWPA's third set were served in June of 2000,
24 correct?

25 A I believe that's right.

1 Q And that was before you prepared your testimony
2 in this case?

3 A It was.

4 Q Well before -- you said well before, is that what
5 you said?

6 A I said it was.

7 Q It was. Excuse me.

8 A Yes. I was definitely aware of this response
9 when I prepared my testimony.

10 Q Okay. And this response does state, does it not,
11 that basic and Smart public access lines do comply with the
12 FCC's new services test, correct?

13 A It makes the claim that that's true, yes. What I
14 say in my testimony is that Qwest has explicitly refused to
15 provide the information necessary to demonstrate that it
16 complies, despite repeated requests by NWPA through the
17 data request process, and stated that it need not
18 demonstrate compliance with regard to the act and the
19 payphone orders.

20 And I can point you to several other requests
21 starting I think probably with 04-040 at which Qwest
22 refused to provide direct cost information for a feature
23 associated with payphone service, refused to provide
24 overhead information for all rate elements associated with
25 its payphone services.

1 Stated its belief that if it were not changing a
2 rate or proposing a change in the rate, that it need not
3 provide any demonstration of compliance.

4 Q And Mr. Harlow went through that with Mr. Teitzel
5 earlier today, did he not?

6 A I believe they discussed some of this, yes. But
7 not in any particular detail.

8 Q This does, however, say that Qwest does assert
9 that its rates for these public access lines do comply with
10 the FCC's new services test, correct?

11 A Yes. And I have no quibble at all that Qwest has
12 made the claim --

13 Q Thank you.

14 A -- of compliance. What I say in my testimony is
15 that Qwest has not demonstrated compliance. And the FCC
16 has been abundantly clear repeatedly, order after order, in
17 terms of new services tests compliance, that the companies
18 must make a full demonstration of the appropriate costs and
19 actually lay out specific filing requirements that would
20 support such a demonstration.

21 Qwest has not only not offered that in this
22 proceeding, it's refused to offer it in response to NWPA
23 data requests.

24 Q Now --

25 A That's what I'm describing here on page 28.

1 Q Now, what is your understanding as to the time
2 frame when Qwest was required to make all those filings and
3 all those showings?

4 A Well, you committed to the FCC that you would do
5 it soon after April 15th, 1997. As a member of the RBOC
6 coalition, Qwest's predecessor, U.S. West, committed to the
7 FCC that as part of a quid pro quo that's set forth in the
8 waiver order, bureau labor order, that Qwest would
9 establish compliant rates on an intrastate basis in each of
10 its states and then make those rates retroactive back to
11 April 15th, 1997.

12 You committed to do that in order to begin to
13 receive Dial Around compensation, which is a substantial
14 revenue source for your payphone operations.

15 We're now over four years after Qwest's slash
16 U.S. West's commitment to the FCC, and compliant rates and
17 the demonstration of compliant rates have yet to be filed.

18 Q And why is it that the NWPA has not raised this
19 issue with the Oregon Commission prior to 2001?

20 A I can't speak to what the association has done in
21 the past.

22 Q Let me direct you to page 33 of your testimony,
23 please. On line 7 you refer to Qwest response to NWPA
24 03-032, correct?

25 A Yes.

1 Q And a little bit further on down on page 14 you
2 say, "Qwest relies on the FCC's October, 1997 memorandum
3 and opinion and order", correct?

4 A Yes.

5 Q And on lines 21 to 22 you say, "Qwest also fails
6 to mention the concluding sentence in the paragraph that it
7 cites."

8 And you go on to cite the concluding sentence,
9 correct?

10 A I do.

11 Q And, indeed, you characterize Qwest's response on
12 line 13 as overtly misleading, do you not?

13 A I do indeed. And I don't make that assertion
14 lightly.

15 Q I would hope not.

16 Now, isn't it true that in this data response, in
17 fact, Qwest did not cite to any particular paragraph in any
18 FCC order?

19 A Let's take a look.

20 Q Do you have that in front of you?

21 A I do.

22 MR. REICHMAN: I would like to mark it anyway, so
23 I will distribute it.

24 Q BY MR. REICHMAN: And I've handed you what's been
25 marked as Exhibit Qwest 241.

1 MR. REICHMAN: And as I do that, it occurs to me
2 that I may not have moved admission of Exhibit Qwest 240,
3 if I could do that.

4 ALJ CROWLEY: You have not done that yet. Any
5 objection?

6 MR. HARLOW: No objection, Your Honor.

7 ALJ CROWLEY: It's admitted.

8 Q BY MR. REICHMAN: Do you have in front of you
9 Qwest Exhibit 241?

10 A Yes, I do.

11 Q And this is Qwest response to NWPA 03-032?

12 A It is.

13 Q And that's the same data request you referred to
14 on page 33 of your testimony?

15 A Yes.

16 Q And, again, at the bottom of that page, you
17 allege that Qwest has cited to a paragraph in that -- in an
18 order. Now, indeed, no order is cited in here nor is there
19 a particular paragraph cited in here, is there?

20 A No. Which is why we asked then the follow up,
21 NWPA 4-45, which states NWPA -- that the U.S. West response
22 states that the FCC has allowed a range of ratio of rates
23 to direct costs for the payphone services up to 4. times
24 greater than direct cost. Please identify the orders in
25 which the FCC has allowed such a charge.

1 And, in fact, in the response to that request,
2 Qwest cites to FCC memorandum in order CC docket 97-140
3 adopted October 27th, 1997, released October 29th, 1997.
4 And then cites directly to paragraph 13.

5 Q So if I understand you correctly, you're
6 suggesting that Qwest was misleading in its response to
7 NWPA data request 04-045 because it gave you an incomplete
8 citation to an FCC order?

9 A Well, the citation isn't merely incomplete.

10 Q Is it merely complete or isn't merely incomplete?
11 I'm not sure if --

12 A I said it isn't merely incomplete. It's
13 misleading because it refers to rates of 4. times greater
14 than direct costs. And the paragraph, in fact, that's
15 being cited to states explicitly that that's only being
16 adopted for rates that are either A, 0 dollars or B, up to
17 or no greater than 15 cents a month.

18 This was responded to in terms of our request to
19 explain a reasonable contribution of overhead for rates for
20 now which you propose to charge 30 to 40 dollars per
21 month. And for Qwest to say the reasonable level of
22 overhead for a 30 to 40 dollar a month rate is properly
23 based on an FCC conclusion of 4.8 times cost and then to
24 come back in number 45 and say, and this October, '97 order
25 is the order on which we rely on to support a claim....

1 That the FCC has allowed rates up to 4.8 times
2 cost I think is overtly misleading because the FCC is very
3 clear that the rates in question range from no charge for
4 two of the services to a monthly rate of 15 cents for the
5 two other proposed services.

6 Q Now, I just want to make sure I understand what
7 your charge is, because as you've said, it is very serious
8 to accuse someone -- or a company of being overtly
9 misleading.

10 You're suggesting that Qwest's response to NWPA
11 data request 04-045 was overtly misleading because it
12 quoted or cited only a portion of the FCC order that is
13 referenced on page 33 of your testimony.

14 Do I understand you correctly?

15 A No, sir, you don't. Actually, I like my
16 testimony better than your version of it.

17 Q Why don't you tell me --

18 A I'll try again and I'll be as straightforward as
19 I can.

20 Q I'd appreciate it.

21 A The NWPA asks originally in 03-032 for a
22 interpretation of the phrase "a reasonable contribution to
23 overhead". Because in previous responses Qwest had made
24 the claim that, in fact, the existing and proposed rates
25 include, quote, a reasonable contribution to overhead. So

1 we asked, I think reasonably, what the definition of that
2 phrase was as used by Qwest.

3 Qwest then, quote, then responded in 03-032 that
4 its definition relied on the FCC's order that it is allowed
5 a range ratio of rates to direct cost for payphone services
6 up to 4.8 times greater than the direct costs.

7 So then we asked in 04-045 what order, in fact,
8 the FCC had done that. And Qwest responded the October 27,
9 1997 order, which does not state that 4.8 times direct cost
10 is reasonable contribution to overhead for any rate greater
11 than 15 cents a month. In fact, it explicitly says that it
12 is not reaching that conclusion.

13 But the concluding sentences in the paragraph
14 after stating that anything greater than 15 cents a month
15 is not what's being considered here, they say that we do
16 not find that our determination here concerning overhead
17 loadings for Bell Atlantic's provisions of payphone
18 features and functions are necessarily to be determinative
19 in evaluating overhead loadings or other services.

20 And when you look at the other services in
21 question, the proposed rate is far in excess of 15 cents a
22 month. It's in the range from 30 to 40 dollars per month.

23 Q And I'm still trying to understand what was
24 misleading. Now, are you suggesting that it was misleading
25 to cite to the FCC's October, '97 order?

1 Are you suggesting this order does not include
2 the discussion of 3.4 to 4.8 times cost? If you could just
3 answer that yes or no, I'd appreciate it.

4 A No. I'm certainly not claiming that at all.

5 Q Okay. So what you're saying is -- so this order
6 does include that reference, correct?

7 A Yes. For rates that are either 0 or 15 cents a
8 month.

9 Q So what you're suggesting is misleading is that
10 Qwest didn't discuss other portions of this order; is that
11 correct?

12 A No, sir.

13 Q I thought I had it.

14 A No, sir. I've said it as concisely as I can.

15 We asked you for your basis for the definition of
16 the phrase of "reasonable contribution to overhead".

17 ALJ CROWLEY: We're getting tired.

18 THE WITNESS: And you responded 4.8. That the
19 FCC had declared that and, therefore, that meant the
20 definition of reasonable. And you made a very broad claim
21 there. And this order is not broad. In fact, this order
22 and the portion of it that, in fact, Qwest cites to in
23 04-045 is not broad at all. In fact, it's very specific
24 and narrow.

25 Q BY MR. REICHMAN: Okay. Let me just try to ask

1 you some questions and I think they would call for a yes or
2 no answer because I would like to just get to the bottom of
3 this and move on.

4 You say at page -- at lines 16 to 17 at page 33,
5 "Qwest completely fails to mention, however, that the FCC
6 stated clearly at paragraph 13", blah, blah, blah.

7 The paragraph 13 you're referring to is the same
8 order that's referenced a few lines ahead, correct?

9 A It is.

10 Q Okay. And then a few lines later you say that
11 the FCC noted something in a footnote.

12 Same order, right?

13 A Yes, it is.

14 Q Okay. A couple lines later you say, "Qwest also
15 fails to mention the concluding sentence in the paragraph."

16 Same order, right?

17 A Yes.

18 Q Thank you. Now, when you say we were misleading,
19 we weren't misleading the Commission, right? We didn't
20 file that with the Commission, did we?

21 A No. Your response was misleading.

22 Q To NWPA?

23 A That's correct.

24 Q Now, isn't that true that Qwest attached the
25 entire FCC order to its response?

1 A I believe you did.

2 Q Is there any doubt because I'll mark it as an
3 exhibit if you want to dispute it.

4 Would you like to look at it?

5 A No. I believe you did.

6 Q We did attach the entire FCC order to your data
7 response, correct?

8 MR. HARLOW: Which data response?

9 MR. REICHMAN: 04-045.

10 THE WITNESS: Yes, you did respond in 04-045 when
11 we asked you. You did not provide it in 03-032, which is
12 what I reference in line 7 of this page. That's what's
13 misleading.

14 Q BY MR. REICHMAN: Let's talk about that order a
15 bit. On page 33 you also say that the FCC's language in
16 that decision applies only to rates for features with a
17 direct cost that is extremely low or zero, correct?

18 A I do believe --

19 Q All right.

20 A -- their phrase is "very low or no charge".

21 Q Okay. You use the word "zero" but they use "no
22 charge". That sounds like it's about the same.

23 A I'm equating those, too. Yes, sir.

24 Q Fair enough. Now, I'm just wondering if I should
25 introduce this.

1 There are other reasons that the FCC found Bell
2 Atlantic's overloading to be reasonable; isn't that true?

3 And before -- do you have that order in front of
4 you?

5 A I do have it.

6 Q So in paragraph 13, the FCC said, "In particular,
7 we note that these services are provided either at very low
8 rates or at no charge", correct?

9 A Yes. That's the first thing they stated in terms
10 of this decision.

11 Q And then they go on to state, quote, In addition,
12 Bell Atlantic has explained that its overhead loadings used
13 to develop its rate for payphone features and functions are
14 comparable with other tariffed services offered by Bell
15 Atlantic, closed quote. Correct?

16 A Yes.

17 Q And they also say, quote, We also note that Bell
18 Atlantic's overhead loadings are comparable to those of
19 other LECs, closed quote. Correct?

20 A Yes.

21 Q Now, isn't it true that other State Commissions
22 have made determinations based on costs to price ratios?

23 A None that I'm aware of. There certainly are
24 several states that have used cost to price ratios in the
25 same way that the FCC does, which is to determine initially

1 whether an investigation is required or as a shorthand for
2 the amount of overhead that's included.

3 But a mere ratio analysis as the total support
4 for a rate for payphone services is not something that I'm
5 aware of in any of the states, certainly that I've been
6 involved in.

7 Q You cited to a decision of the Tennessee
8 Regulatory Utility Commission in your testimony.

9 Do you recall that?

10 A It's the Tennessee Regulatory Authority. Yes,
11 sir.

12 Q Now, isn't it true that the -- well, do you have
13 that in front of you, or would you like me to --

14 A I have it here. It won't take me but just a
15 minute to find it.

16 Q Do you have that in front of you?

17 A We do.

18 Q Now, we may not have the same version, so I'm
19 going to hand you a version so we can make sure we're on
20 the same page.

21 A Mine is the actual version from the Tennessee
22 Regulatory Authority web site, so it's formatted
23 differently.

24 Q Right. That's why I wanted to --

25 A It appears to be the same.

1 Q If I could just ask you to refer to mine so I can
2 direct you to a page. I've had a lot of pagination issues
3 during this hearing.

4 If you could turn to what's numbered at the top
5 of my version as page 74. And in the middle of that page,
6 at the top of the page there's a heading that refers to
7 reasonable allocation of overhead, correct? Do you see
8 that?

9 A Yes.

10 Q And what they're talking about here is
11 allocating -- setting prices for payphone access lines,
12 correct?

13 A That's correct. That was the entire subject
14 matter of this proceeding.

15 Q Right. And in the middle of the page is a
16 paragraph that starts out "The TRA found."

17 Do you see that?

18 A Yes.

19 MR. REICHMAN: Give me one second, if you would.

20 Q BY MR. REICHMAN: And that section reads, "The
21 TRA found that the new services test does not require the
22 use of any particular methodology to determine the amount
23 of the reasonable allocation of overhead costs."

24 Is that correct?

25 A That is correct. And just to be clear, they're

1 referring to one requirement of the FCC's four-part test.
2 And they were explicit that they also applied the other
3 three requirements. And this is a discussion specifically
4 on the new services test requirements.

5 Q And they found that payphone services are more
6 closely akin to retail services than to UNEs, correct?

7 A That's their statement, yes. And there's
8 certainly no dispute that payphone services are retail
9 services.

10 Q And at the end of that sentence they say, "The
11 directors voted unanimously that TLRIC pricing is not
12 required and that cost-price ratio comparisons generally
13 can be used to demonstrate the reasonableness of overhead
14 loadings for payphone services."

15 Is that correct?

16 A Yes. Again, they're specifically referring to
17 one out of four requirements. And they were also clear --
18 mine's paginated differently, but I'm looking at a
19 statement Section B that says, "The directors voted
20 unanimously to set rates that are 1, compliant with the new
21 services test; 2, consistent with 276; 3,
22 non-discriminatory; and 4, cost based."

23 So they explicitly went far beyond this
24 particular analysis.

25 Q Now, you believe that the Commission should set

1 the price for PAL service at the UNE rates approved in UM
2 844, correct?

3 A No. I think this Commission should set the rates
4 for PAL service at the total of the direct shared and
5 common costs that Qwest has demonstrated to be reasonable
6 pursuant to the requirements of the payphone orders.

7 And to date, you have demonstrated a direct cost
8 and no overhead loading. And they should give you exactly
9 what you demonstrate.

10 Q So the rate should be zero, is that what you're
11 saying?

12 A If you had demonstrated no cost, which you have
13 not, for a particular feature, the rate should be zero.
14 That's all you've demonstrated. For other rates where
15 you've demonstrated a direct only cost, the direct cost
16 should constitute the rate because you made no
17 demonstration of shared and overhead costs, despite your
18 obligation and despite NWPA's repeated requests that you do
19 so.

20 I also then offer an alternative approach which
21 is set forth in Exhibits 3 and 4, to adopt the last level
22 of reasonable overhead determined by this Commission, but
23 only if they want to cure the defect in your case for you.

24 Q Thank you. So you do propose in your testimony,
25 at least as an alternative, that this Commission should set

1 prices for PAL service at the UNE rates approved in UM 844,
2 correct?

3 A As an alternative. And not because they're UNE
4 rates but because that represents Qwest's last
5 demonstration of a reasonable level of shared and common
6 costs.

7 Q Okay. Thank you. Now, you do agree, do you not,
8 that Sections 251 and 252 of the Telecommunications Act of
9 1996 do not establish the pricing standards for this
10 Commission to use in setting rates for PAL service,
11 correct?

12 A That's correct. Pricing standard is what is set
13 forth in the FCC orders.

14 Q And it is not the pricing standard in Sections
15 251 and 252?

16 A Well, it depends on what you mean by "pricing" --
17 the answer is yes and no. If you mean a portion of 251,
18 252 that refers to the rate structure being on an unbundled
19 element basis, the answer is explicitly no. They've
20 rejected a request to do that.

21 Q I'm referring to the rate level --

22 A If you're --

23 MR. HARLOW: Excuse me, Your Honor. He needs to
24 be allowed to finish his answer.

25 MR. REICHMAN: I was just trying to help him.

1 MR. HARLOW: Okay.

2 THE WITNESS: If you mean the requirement in 252
3 that the rate level itself be based on costs and
4 specifically be based on economic costs, then the answer is
5 yes, the Commission -- the FCC has consistently over the
6 last ten years required those rates under the new services
7 test to be consistent with economic cost.

8 That standard has been applied in the ONA
9 proceeding. It's been applied in expanded
10 interconnection. It's been applied in virtual and physical
11 collocation. All of the major applications in the new
12 services tests for the past ten years have had an explicit
13 requirement for economic cost based rates.

14 Q BY MR. REICHMAN: So to make sure I understand
15 you, you are asserting that the pricing standard in Section
16 252 of the act -- and I believe it's 252(d)(3). I'm not
17 sure. 252(d), you're asserting that the pricing standards
18 in section 252(d) of the act do set the standard for this
19 Commission to apply in setting the rates for PAL service or
20 do not apply?

21 A Do not apply.

22 Q Okay. Thank you.

23 A The pricing standard that must be applied by the
24 Commission in this case is the same as the 252 standard.
25 And the FCC has been abundantly clear -- and I can take you

1 through a series of at least six orders that I have up here
2 with me where they have been absolutely crystal clear that
3 you must base the rates under new services on forward
4 looking economic costs, which is the same standard as 252.
5 The source is not 252. The source is the FCC orders.

6 Q I don't want you to take me through that. And I
7 would really appreciate it if you could answer my yes or no
8 questions with a yes or no or we're going to be here really
9 late tonight.

10 A If you ask me a yes or no question, Mr. Reichman,
11 I will definitely answer it that way.

12 Q I would appreciate that.

13 So 252(d) does not set the standard for this
14 Commission to apply in setting the rate for PAL service?

15 A That's correct.

16 Q That is correct.

17 A In fact, I asked myself that in the prefiled
18 testimony and answered it no.

19 Q Does not apply?

20 A Does not.

21 Q And the FCC has ordered that Section 251 and 252
22 has no applications to payphone rates, correct?

23 A No.

24 Q That is not correct?

25 A They have ordered that with regard to the

1 unbundling provision of 251, 252. They have not ordered
2 that with regard to the economic cost provision. And, in
3 fact, to do so would be completely at odds with the orders
4 that -- I have it here in front of me.

5 Q Well, didn't the Commission in the payphone order
6 as you've referred to it in paragraph 147 say quote, We
7 decline to require as proposed -- would you like me to let
8 you get to the right paragraph before I read it?

9 A I'm well -- I'm very familiar with it.

10 Q Okay. So it is true, is it not, that the FCC
11 said, quote, We decline to require as proposed by AT&T that
12 the pricing regime under Sections 251 and 252 apply to all
13 Section 276 payphone services offered by incumbent LECs,
14 period.

15 Section 276 does not refer to or require the
16 application of Sections 251 and 252 to LEC payphone
17 services, period. In addition, the elements and services
18 to be offered under Sections 251 and 252 are not available
19 to entities that are not telecommunications carriers. And
20 many PSPs are not telecommunications carriers, period.

21 Is that what the payphone order says?

22 A That's exactly what it says. And I'm glad you
23 included the clause "as proposed by AT&T" because Mr.
24 Teitzel omitted that from his citation in his rebuttal
25 testimony.

1 And if you look at what was proposed by AT&T, you
2 will find that AT&T proposed an unbundled structure for
3 payphone rates, and that what AT&T proposed has nothing to
4 do with economic costs or rate levels but with the
5 unbundled structure of costs.

6 And if there's any confusion about what the FCC
7 is addressing here, we can look directly at the title of
8 this section. The title of this section is "Unbundling of
9 Payphone Services", not rate levels for payphone services.
10 It doesn't address rate levels. It addresses a specific
11 request by AT&T to unbundle payphone services into
12 something comparable to unbundled network elements. NWPA
13 is not asking for that here.

14 Q Well, what NWPA is asking for in its
15 alternative -- let's turn to its alternative proposal and
16 specifically the corrections that you made today.

17 If you look at Exhibit NWPA 4, page 1, is it fair
18 to characterize this proposal as -- and I acknowledge it's
19 your alternative proposal and perhaps not even your
20 preferred proposal.

21 But is it fair to characterize this proposal as
22 determining the rates for PAL service by taking the TSLRIC,
23 let's say the UM 844 rates, and -- which include the
24 approved overhead, and subtracting from that the CALC plus
25 PICC charges; is that a fair characterization of this

1 XXX
2 XXX
3 XXX
4 XXX
5 XXX
6 XXX
7 XXX
8 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

9 MR. REICHMAN: And I think we're off the
10 confidential part now.

11 Q BY MR. REICHMAN: Now, as you just said, you
12 believe that it's necessary to, in effect, either not
13 charge a CALC and PICC or include it in the price in order
14 to avoid Qwest having a competitive advantage?

15 A Yes.

16 Q That's one of the reasons.

17 A One is a double recovery of costs, and the second
18 is a competitive advantage.

19 Q And with respect to this alleged competitive
20 advantage, you referring to situations where Qwest provides
21 public telephone service in competition with other
22 providers of pay telephone service?

23 A I am.

24 Q Payphone service, that's what you're referring
25 to.

1 Now, you were here earlier today -- well, it's
2 been a long day and I'm not sure what Mr. Teitzel said
3 anymore.

4 A That's all right. I have --

5 Q Let me start over again. You're aware, are you
6 not, that when Qwest provides payphone service, it has a
7 separate division that does that, correct?

8 A That's my understanding of Mr. Teitzel's
9 testimony, that there's a separate division.

10 Q And you also understand that there are accounting
11 separations between that division and the regulated
12 telephone company, correct?

13 A Well, if you mean "accounting separations" as a
14 general term and not in the way that the FCC uses it, yes.

15 Q Well, what I mean are the way that it's used in
16 Section 276. Do you agree that Section 276 requires bell
17 operating companies that provide payphone service to
18 prescribe a set of non-structural safeguards to implement
19 certain other requirements of that section?

20 A Yes, indeed. In fact, we've been discussing
21 non-structural safeguards up until this point.

22 Q We have?

23 A The new services test is explicitly a
24 non-structural safeguard. It comes from the computer 3
25 inquiry. And I believe the FCC in each of the payphone

1 orders referred to it as a non-structural safeguard.

2 Q Are accounting separations or separations set up
3 between entities within Qwest also non-structural
4 safeguards also?

5 A Yes. A structural safeguard would require a
6 separate company. If you don't have a separate company but
7 merely another division, then it's a non-structural
8 safeguard.

9 Q Now, you're aware that when Qwest's payphone
10 division purchases an access line from Qwest, the telephone
11 company, it pays the rate in Qwest's tariff for the PAL
12 service, correct?

13 A Well, it doesn't really pay anything. But, yes,
14 there's an accounting entry that reflects the rate, the
15 tariffed rate for the service.

16 Q The same --

17 A Division issues.

18 Q Sorry. It's the same tariff rate that a member
19 of NWPA would pay, correct?

20 A Well, it's probably not. It's probably a Smart
21 line versus a PAL line. But it's the same generally
22 available rates in the tariff.

23 Q And if the NWPA chose to purchase a Smart line,
24 it would be the same rate?

25 A That's correct. The difference is the NWPA

1 member must pay that rate and be profitable in order to
2 stay in business. Qwest payphone division has no such
3 competitive real world requirement on it.

4 Q Is that right?

5 A Yes.

6 Q The Qwest payphone division has no real world
7 requirement to be profitable?

8 A It does not face the same situation the private
9 payphone providers face where they must be profitable in
10 order to remain in business. Your separate division, in
11 fact, operates as a portion of Qwest. And, in fact, most
12 RBOC separate payphone divisions are not profitable right
13 now.

14 Q And they're continuing to operate payphones or
15 they're taking them out?

16 A Some of them are continuing to operate. Some are
17 trying desperately to take them out. I know SBC and Bell
18 South both have several hundred thousand payphones on the
19 block right now. And the reason they're trying to sell
20 them is because they found that their own division can't
21 make money if they actually have to pay the same rate that
22 private payphone providers have to pay and have been
23 paying.

24 Q Mr. Wood, Section 276 of the act says that BOC --
25 I'm sorry. "Any bell operating company that provides

1 payphone service shall not subsidize its payphone service
2 directly or indirectly from its telephone exchange service
3 operations or its exchanged access operations", correct?

4 A It does indeed.

5 Q And that, indeed, is one of the purpose of
6 setting up these accounting separations, these
7 non-structural safeguards as we've been discussing them,
8 correct, to avoid that sort of subsidy issue?

9 A The non-structural safeguards are at least one
10 measure to determine whether the subsidy exists. But they
11 certainly are not the only measure. They're certainly not
12 a complete measure. And they certainly -- having them in
13 place does not prevent the type of subsidy that is not
14 allowed in 276 to exist. It certainly can.

15 Q Do you have any information that this -- that
16 Qwest is violating the subsidization provision of Section
17 276 that I just read to you?

18 A No. I made no such suggestion in my testimony.
19 The suggestion I made is that Qwest could gain a
20 competitive advantage if the adjustment to prevent double
21 recovery of costs is not made. And that remains my
22 testimony.

23 Q Now, isn't it --

24 A That's consistent with the other State Commission
25 orders that are exactly the same thing.

1 Q Isn't it true that Qwest, the telephone company,
2 charges its payphone division the same federal charges, the
3 CALC and the PICC, as it would charge any other payphone
4 provider?

5 A No. Same response. It doesn't charge them
6 anything. It's a one pocket to another transaction. But
7 there is an accounting transaction that relates to those
8 federal charges.

9 Q Okay. Thank you. You've talked about the
10 Wisconsin order quite a bit in your testimony -- to some
11 extent in your testimony.

12 A I addressed the Wisconsin order in my testimony.

13 Q And that order was written by a deputy chief of
14 the Common Carrier Bureau, correct?

15 A It was signed by Mr. Varma who was at the time
16 the deputy chief. Based on my ex parte conversations, it
17 was written by several other people.

18 Q You make a good point. We don't know who wrote
19 it. It was signed by him though, correct?

20 A Yes, it was.

21 Q It was not signed by any of the FCC
22 commissioners, was it?

23 A No, it wasn't, which is why I don't suggest the
24 Commission here make any decisions based on the Wisconsin
25 order but instead base its decision on the previous orders

1 that came from the full commission.

2 Q And, indeed, the Wisconsin order only applies to
3 the specific LECs in Wisconsin that are named in that
4 order, correct?

5 A Yes.

6 MR. REICHMAN: I have no further questions.

7 ALJ CROWLEY: Thank you. Mr. Harlow?

8 MR. HARLOW: Thank you, Your Honor.

9 --ooOoo--

10 REDIRECT EXAMINATION

11 BY MR. HARLOW:

12 Q Mr. Wood, I want to come back to the universal
13 service bench mark of \$21 and try to, if possible, shed
14 more light on that subject.

15 Let's just take a look at NWPA 4, page 1. And
16 you see that in rate group 3 the Qwest reported TSLRIC is
17 in excess of \$21. And I don't want to put the number on
18 the record. This is with your revision.

19 A Yes. I'm sorry. Flat PAL rate group 3?

20 Q Yes.

21 A Yes.

22 Q And what's your understanding that this -- that
23 if Qwest provides flat rate PAL in rate group 3, I assume
24 Qwest bears -- initially bears that cost that's shown in
25 Column B; is that correct?

1 A Yes, they do. The TSLRIC that they bear is shown
2 in Column B.

3 Q And if your rate recommendation is adopted to
4 offset that cost, they'll receive the EUCL/CALC plus PICC
5 that you show in Column F for rate group 3; is that
6 correct?

7 A Yes, they would.

8 Q And they would also receive the rate that you
9 recommend in Column G; is that correct?

10 A Yes.

11 Q And that equals 20 -- excuse me. That equals
12 \$21; is that correct?

13 A That's right.

14 Q How does Qwest make up the shortfall between the
15 reported TSLRIC in Column B and the revenue of \$21?

16 A The same way we do it for any other rate when the
17 bench mark is reached for a service. And that is from the
18 intrastate fund.

19 Q Is it your understanding that Qwest has actually
20 paid that difference for each PAL line in rate group 3?

21 A That's my understanding based on reading the
22 order. When I looked at -- I'm on page 22 when I point to
23 the bench mark. And it appears there that the Commission
24 is pretty clear that they want to seek to minimize the
25 difference between the price for basic telephone services

1 and the standard bench mark. And certainly minimizing the
2 difference isn't going to the bench mark to do that.

3 Q So if Qwest were to set a state, intrastate
4 tariff for PAL service that would recover with the EUCL and
5 the PICC the full TSLRIC cost, would that amount to double
6 recovery?

7 A Yes. When we talk -- the problem is that these
8 federal charges are set during -- based on a different
9 regime. They're set based on cost presented to the FCC.

10 Q No. I'm sorry. Mr. Wood, I'm focusing in on
11 universal service now.

12 A Yes.

13 Q Not the double recovery issue for EUCL.

14 A Yes. I'm sorry. Yes.

15 Q And where would the double recovery come from?

16 A From the amount paid plus the fund.

17 Q Plus the universal service support?

18 A Yes.

19 Q Returning to the lengthy discussion about the
20 Bell Atlantic order that's cited in your testimony at
21 page -- I believe it's page 33, footnote 33.

22 And do you have that in mind?

23 A Yes.

24 Q Was one of the Bell Atlantic services under
25 consideration originating line screening service?

1 A It was indeed.

2 Q And do you have a recommendation with regard to
3 the -- well, let me rephrase that. Do you think it would
4 be appropriate potential for this Commission to allow a 4.8
5 times markup over direct costs for Qwest's originating line
6 screening services?

7 A I see that's your recommendation. But would that
8 be an appropriate markup for that service?

9 A I want to be very careful because I don't want to
10 divulge any proprietary information. Based on my
11 understanding from reviewing Qwest's cost data in a number
12 of different jurisdictions, the 4.8 multiple over that
13 direct cost would be fully consistent with the Bell
14 Atlantic decision here.

15 In other words, it would yield a monthly rate
16 that falls in that 0 to 15 cents range. And for that
17 reason, 4.8 would not be an unreasonable multiple.

18 MR. HARLOW: And I'd like to designate the record
19 confidential here so we can get that number in.

20 XXX
21 XXX
22 XXX
23 XXX
24 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

25 MR. HARLOW: That's the end of the confidential

1 portion, Your Honor. And that's the end of my redirect.

2 ALJ CROWLEY: Thank you. Follow up to that, Mr.
3 Reichman?

4 --ooOoo--

5 RECROSS EXAMINATION

6 BY MR. REICHMAN:

7 Q That last number that you reference, to your
8 knowledge, is that in the record in this case?

9 A I don't know. I know we requested it repeatedly
10 in data requests and Qwest refused to provide it.

11 Q So if it's not in the record in this case, then
12 you're relying on some other state proceeding?

13 A Well, I'm relying on a number of them.

14 Q A number of them?

15 A I've been doing cost work for 15 years now. So,
16 yes.

17 Q Thank you.

18 MR. REICHMAN: Nothing further.

19 ALJ CROWLEY: Okay. Thank you very much, Mr.
20 Wood.

21 THE WITNESS: Thank you.

22 ALJ CROWLEY: This witness is excused.

23 MR. HARLOW: Your Honor?

24 ALJ CROWLEY: Yes.

25 MR. HARLOW: Could Mr. Wood be excused to return

1 to Atlanta?

2 ALJ CROWLEY: Yes, he's excused. Do we want to
3 take a five minute break before we proceed to Dr. Cornell?

4 DR. CORNELL: Would you mind.

5 ALJ CROWLEY: No. That would be welcome.

6 MR. HARLOW: Thank you, Your Honor.

7 (Recess taken)

8 MR. HARLOW: ATG calls Dr. Nina Cornell.

9 ALJ CROWLEY: Would you stand, please, and raise
10 your right hand.

11 (Witness sworn by the Administrative Law Judge)

12 ALJ CROWLEY: Thank you. Please be seated.

13 State and spell your name for the record.

14 THE WITNESS: My name is Nina W. Cornell;
15 C-o-r-n-e-l-l.

16 ALJ CROWLEY: Thank you.

17 THE WITNESS: Nina is N-i-n-a.

18 ALJ CROWLEY: Thank you.

19 --ooOoo--

20 DR. NINA W. CORNELL,

21 Thereupon called as a witness on behalf of ATG, first duly
22 sworn, was examined and did testify as follows:

23

24 DIRECT EXAMINATION

25 BY MR. HARLOW:

1 Q Dr. Cornell, do you have in front of you what
2 have been marked as Exhibits ATG 1 and ATG 2?

3 A I do.

4 Q Did you prepare those exhibits?

5 A Yes, I did.

6 MR. HARLOW: Your Honor, we offer Exhibits ATG 1
7 and ATG 2.

8 ALJ CROWLEY: And Qwest made some objections to
9 those which I overruled, so those are admitted over their
10 objections.

11 Q BY MR. HARLOW: Dr. Cornell, do you have any
12 corrections to your testimony?

13 A I have two nits, if you'll pardon me, just to be
14 sure everybody's clear. In ATG 2, there is missing a
15 proceeding in Minnesota for which I have been unable to
16 reconstruct a docket number.

17 And in ATG 1, on page 3, in my answer that begins
18 on line 1 where I said "Qwest has proposed a monthly
19 recurring Centrex Plus rate structure, it would charge a
20 lower price", et cetera.

21 I should have gone on to say "additional
22 discounts for a hundred and one location lines per
23 location", et cetera. So I've truncated it at 51 lines and
24 it goes on.

25 Q Thank you, Dr. Cornell. Now, at page 16,

1 beginning on line 21 of your testimony, you noted that ATG
2 had requested information to determine the revenue effect
3 of your proposal. And you offered to make the calculations
4 if you received the data.

5 Did you receive the data?

6 A I received the data. And while I do not have
7 with me the precise revenue effects, the real reason for it
8 was to prove that we -- that it could be done; that is you
9 could reset the various Centrex Plus discount rates at a
10 high enough level to overcome the revenue effect of making
11 the discount be on a per wire center rather than a per
12 customer location basis. And, indeed, that can be done so
13 that no other rates in this large complex of rates need to
14 be affected.

15 MR. HARLOW: Your Honor, Dr. Cornell is available
16 for cross.

17 ALJ CROWLEY: Thank you. Mr. Reichman?

18 MR. REICHMAN: Thank you.

19 --ooOoo--

20 CROSS EXAMINATION

21 BY MR. REICHMAN:

22 Q Good afternoon, Dr. Cornell.

23 A Good afternoon.

24 Q In this proceeding you represent the interests of
25 ATG, correct?

1 A No. Only lawyers represent. And may I say for
2 the blanket purpose of this record, I am not a lawyer.

3 ALJ CROWLEY: Thank you. That will save us some
4 time.

5 Q BY MR. REICHMAN: Do you have a client in this
6 case?

7 A I have a client, but I do not represent. Only
8 lawyers represent. I'm on behalf of ATG.

9 Q ATG. Thank you. And ATG is a Centrex reseller,
10 correct?

11 A My understanding is that it is both a facilities
12 based CLEC and a Centrex reseller.

13 Q As far as this case is concerned, you're
14 representing their interests as a Centrex reseller; is that
15 fair?

16 A I really meant what I said, Mr. Reichman.

17 Q Okay. I apologize.

18 A I do not represent. I am here on behalf of.

19 Q I apologize. I did not mean to say that. It's
20 just that it just came out.

21 You are here on behalf of their interests as a
22 Centrex reseller, correct?

23 A I guess the answer is yes.

24 Q Thank you. And are you aware that ATG has
25 acquired a company that was called Shared Communications

1 Services?

2 A I have heard that.

3 Q Now, it's true that the most likely customers of
4 a Centrex reseller are small and medium sized businesses,
5 correct?

6 A I think that's correct.

7 Q And Centrex resellers offer these customers the
8 equivalent of basic business service plus many features,
9 correct?

10 A Correct.

11 Q In fact, over 40 features are offered in the
12 Centrex Plus product, correct?

13 A If you say so. I haven't looked at the list in a
14 while.

15 Q Well, will you accept that subject to check?

16 A Yes.

17 Q Centrex resellers could also offer their
18 customers toll service; is that true?

19 A They could.

20 Q Now, when you say "small" -- and, by the way,
21 when I said "small and medium sized businesses", I took
22 those words out of your testimony.

23 When you use the word "small" business, what size
24 were you referring to in terms of their need for telephone
25 access lines?

1 A That one is a hard one to pin down because it's
2 both a question of access lines and total quantity of
3 traffic, regardless of access lines. You could have a
4 company that has -- or a client or a customer or an end
5 user. Let me correct it and say end user who may have 20
6 access lines but very little traffic per access line. And
7 that would be in some senses a small business.

8 And in another sense, you could have an end user
9 who only has five access lines but those access lines are
10 heavily packed in terms of the usage every day. And it
11 might make more sense there to move away from standard 1FB
12 type service subscription and start subscribing directly as
13 the end user to a T-1.

14 Q When Centrex resellers are trying to attract
15 business from a small or medium sized business, in many
16 instances they're competing with Qwest for that business,
17 correct?

18 A Correct.

19 Q And would you agree that the most likely
20 competing products that Qwest offers is either a basic
21 business line known as a 1FB, or perhaps a package,
22 something like the Custom Choice product?

23 A Or even Centrex 21.

24 Q Or even Centrex 21. All --

25 A Right.

1 Q Those three are the likely competitive options
2 offered by Qwest, correct?

3 A Those are the three that Qwest wishes these
4 customers -- this customer base to subscribe to.

5 Q Okay. Now, as we said before, Centrex has many
6 features. Would you agree to accept that subject to check?

7 A That's correct.

8 Q So if these customers wanted to match the product
9 offered by a Centrex reseller, they would either need to
10 buy a 1FB line from Qwest with some ala carte features or
11 something like a feature package which Qwest calls Custom
12 Choice, correct?

13 A I think that's correct. But could you repeat the
14 question? I apologize.

15 Q I'll try. I forgot where I started. I know
16 where I ended up.

17 If these customers were to purchase a comparable
18 service that they could get from a Centrex reseller, they
19 would likely purchase either a basic business line with
20 some separate features that they choose or a basic business
21 line with a package of features, correct?

22 A In order to match the features that a Centrex
23 reseller could offer them reselling Centrex Plus?

24 Q Correct.

25 A Yes. Sorry.

1 Q Are you aware that Qwest offers a product to its
2 business customers called Custom Choice; have you heard of
3 that?

4 A I'm not sure I've heard of it, but I do know that
5 Qwest offers packages.

6 Q Okay. Would you accept subject to check that
7 Qwest offers a package called Business Custom Choice which
8 in total includes a line and a package of 20 some odd
9 features for a price in Oregon currently of approximately
10 \$55 per month?

11 A I assume you will give me a copy of the tariff
12 sheet so I can check it. But, yes, subject to that check,
13 I will accept it. That Qwest does it. Excuse me.

14 Q Thank you. I appreciate that. It may not
15 technically be a tariff sheet in Oregon. It may be
16 something else. But we can provide that.

17 A Thank you.

18 Q Thank you for confirming that.

19 Now, in this case you raise issues concerning the
20 per location discounts in the Centrex pricing structure; is
21 that correct?

22 A That's correct.

23 Q Let me take a step back. I think we heard
24 earlier in Mr. Teitzel's testimony that the average price
25 per line that a Centrex reseller pays is roughly half of

1 the comparable business service. Do you recall that?

2 A I do not think that was his testimony. I think
3 his testimony was, given the proposal of March of this
4 year, as I understand it, that the average Centrex price in
5 rate group 1 paid by all Centrex customers of all different
6 sizes, so you're averaging resellers with non-resellers,
7 large customer locations with small customer locations, et
8 cetera, would be about half --

9 Q Okay.

10 A -- of the price that is proposed for -- a little
11 bit more than half but not more than half the price
12 proposed for 1FB.

13 Q But you agree with the general proposition that
14 the per line price that a Centrex reseller pays is less
15 than the price even for the 1FB service alone?

16 A I was -- I apologize. My hesitation is I'm
17 trying to run through in my mind the different rate
18 proposals that have been put on the table, removed, put on
19 the table, removed, which I had to look at in very short
20 order. I think that's correct, but I'm not positive based
21 on your last -- based on what I think your last proposal
22 is.

23 Q Okay. Would you agree that a Centrex reseller
24 pays less per line than under a 1FB with a comparable level
25 of features to the Centrex package, Centrex service?

1 A Not just a Centrex reseller. Any Centrex
2 subscriber pays less.

3 Q As I said, you raise issues regarding the per
4 location discounts in the Centrex pricing structure. And
5 you claim that setting the discount on a per location
6 basis, quote, would make resell much less viable if it is
7 viable at all, correct?

8 A Correct.

9 Q And you also state that -- and this is page 14 if
10 you need to check -- you also state that this, quote,
11 prevents retail competition, closed quote, correct?

12 A It certainly prevents -- restricts or prevents
13 would be a better way to put it.

14 Q Well, let's just just check what you said. Page
15 14, lines 4 to 5. You said, "This in turn prevents retail
16 competition", correct?

17 A That's correct. That is if resell is not viable.
18 The "this", that's why I should have said "in turn
19 restricts or prevents". Because this, as it is written,
20 refers literally to the clause "if it is viable at all".

21 Q So are you saying that it would be more accurate
22 to change your testimony to say "restricts or prevents" on
23 line 4?

24 A Yes.

25 Q Should we do that?

1 A Sure.

2 Q Now, are you aware that in December of 1997,
3 resellers in Oregon subscribed to over 38,000 Centrex lines
4 from Qwest?

5 A I'm not aware of the number, but I heard Mr.
6 Teitzel say that the number was greater than 30,000.

7 MR. REICHMAN: Your Honor, I fear I lost track
8 again.

9 ALJ CROWLEY: This is 242. And I see -- I don't
10 have it marked that you moved 241 into evidence.

11 MR. REICHMAN: I appreciate that. We would move
12 241 into evidence.

13 ALJ CROWLEY: And that was the response to the
14 Northwest Payphone Association data request 03-032.
15 Any objections?

16 MR. HARLOW: Let me refresh my recollection to
17 that. No objection, Your Honor.

18 ALJ CROWLEY: It's admitted.

19 MR. REICHMAN: Thank you.

20 ALJ CROWLEY: The one that you've just given me
21 I'm marking as Qwest 242.

22 Q BY MR. REICHMAN: Dr. Cornell, do you have in
23 front of you Exhibit Qwest 242?

24 A Yes, I do.

25 Q And that appears to be the affidavit of Karen A.

1 Stewart from the Public Utility Commission's docket UC 335?

2 A That's what it says.

3 Q And that was a case involving apparently shared
4 communications services and U.S. West?

5 A I know nothing about what the docket is.

6 Q That's fair enough. Let me ask you if you would
7 turn to -- well, to paragraph 4 on the first page of this
8 exhibit?

9 A Yes.

10 Q That indicates, does it not, that as of December
11 of 1995, in Oregon resellers subscribed to over 16,000
12 Centrex lines from U.S. West?

13 A That's what it says.

14 Q And in paragraph 5 it says that number as of
15 December of 1996 was over 25?

16 A That's what it says.

17 Q And in paragraph 6, as of December of 1997, that
18 number was over 38,000?

19 A That's what it said.

20 Q And as of April, 1998, that number was over
21 41,000?

22 A That's what it says.

23 Q Do you have any reason to believe that these
24 numbers are not accurate?

25 A I have no reason to know anything about these

1 numbers one way or the other.

2 MR. REICHMAN: Your Honor, we would ask that this
3 be admitted. And it is a document from the Commission's
4 files.

5 ALJ CROWLEY: Any objections?

6 MR. HARLOW: Objection. There's no foundation,
7 Your Honor.

8 MR. REICHMAN: Your Honor, we'd ask this be
9 simply taken official notice of. This is a document from
10 Commission filing in docket UC 335.

11 ALJ CROWLEY: Over your objection, I'll take
12 official notice.

13 Q BY MR. REICHMAN: Dr. Cornell, are you aware that
14 during the --

15 MR. REICHMAN: If I may withdraw that question
16 and confer for one moment.

17 Q BY MR. REICHMAN: Dr. Cornell, are you aware that
18 during the time periods referenced here, starting in
19 December of 1995 through April of 1998, Qwest had in place
20 in Oregon what you refer to as per location pricing for
21 Centrex Plus?

22 A Yes, I'm aware that Centrex Plus came into Oregon
23 sometime prior to August of 1993.

24 Q And has it always had per location pricing since
25 then?

1 A Centrex Plus was designed with per location
2 pricing all across U.S. West's territory, except where it
3 was rejected by public service commissions.

4 Q And are you also aware that during the time
5 periods referenced in paragraphs 4 through 7 of Qwest 242,
6 that the Oregon Commission had in place a surcharge for
7 resold Centrex lines?

8 A I have no knowledge of a surcharge. In fact, the
9 only thing I know is that for a period of time that
10 certainly ended with the passage of the Telecommunications
11 Act, but maybe or maybe not sooner, Oregon had decided that
12 resale of Centrex was not in the public interest.

13 Q Indeed, in 1990, are you aware that the
14 Commission expressed its intent to abolish the resale of
15 Centrex type services?

16 A I don't remember when it was, although I have
17 read documents that show that Oregon had decided to ensure
18 that or to order an end to resale of Centrex.

19 Q When you say "Oregon", you mean the Oregon Public
20 Utility Commission?

21 A Yes. I'm sorry. Yes, the Oregon Public Utility
22 Commission.

23 Q Thank you.

24 MR. REICHMAN: Your Honor, I think it would save
25 some time if I asked you to take official notice of the

1 Commission order in the same proceeding UC 335. It is
2 Order Number 98-372. And I do have copies that I can pass
3 out.

4 ALJ CROWLEY: I will take official notice of
5 Order 98-372.

6 MR. REICHMAN: I'm not intending to mark it as an
7 exhibit necessarily to refer to. But I'll give you all
8 one.

9 ALJ CROWLEY: Thank you.

10 MR. HARLOW: We have no objection to official
11 notice of Commission orders, Your Honor.

12 ALJ CROWLEY: It's taken.

13 Q BY MR. REICHMAN: Dr. Cornell, will you accept my
14 representation that during this time period the Commission
15 had in place a surcharge for Centrex resale in the amount
16 of \$5.40 per line?

17 MR. HARLOW: Objection. Vague. What do you mean
18 by "this time"?

19 MR. REICHMAN: Thank you.

20 Q BY MR. REICHMAN: From December of 1995 through
21 April of 1998?

22 A It certainly appears -- obviously, I have had
23 time to read the order.

24 Q Sure.

25 A It certainly appears that there was for some

1 period of time a surcharge.

2 Q Does it appear from the numbers that I've shown
3 you, from December, 1995 through December, 1998, that the
4 number of resold Centrex lines grew?

5 A It certainly does.

6 Q And that was despite the fact that there was per
7 location pricing in place at that time?

8 A Well, that shows what happened with per location
9 pricing. It tells you nothing about what would have
10 happened in the absence of per location pricing. And the
11 real mark with the competitive market would have been if
12 there had been no per location pricing.

13 Q Now, you're aware -- you would agree that under
14 the Telecom Act of 1996, Qwest is required to offer for
15 resale at wholesale rates any telecommunications service
16 that it provides at retail to subscribers who are not
17 telecommunications carriers, correct?

18 A There are a lot of assumptions about what is a
19 telecommunications service and what isn't that must get
20 dealt with before I could say just a blanket "yes" to that
21 answer -- to that question.

22 Q Would you agree --

23 A The --

24 Q I'm sorry.

25 A I would like to finish.

1 Q I'm sorry. Go ahead.

2 A Qwest is required to provide a resale discount on
3 its -- most of its tariffs. But there are things that have
4 been ruled outside the domain of that requirement that turn
5 out in the marketplace to be necessary which makes the
6 resale provision less effective than it would otherwise be.

7 A good case in point is voice mail with regard to
8 Centrex subscribers. Because the requirement doesn't apply
9 to voice mail, does not apply to voice mail, it is very
10 difficult for a company, a CLEC, to use or a reseller to
11 use that provision of the act in resell Centrex because it
12 turns out that it's a bundle, the voice mail plus the
13 Centrex, that customers really want and the resellers can't
14 get or that Qwest has refused in the past to provide.

15 So it's very easy to, by that linking and
16 delinking of services to render the legal obligation -- and
17 I remind you that I'm not a lawyer -- an economic nullity,
18 if you would, in the marketplace.

19 Q You would agree that the act states, quote -- I
20 started my quote too early. You would agree that the act
21 requires ILECs to, quote, offer for resale at wholesale
22 rates any telecommunications service that the carrier
23 provides at retail to subscribers who are not
24 telecommunications carriers, closed quote.

25 I can give you my copy of the act if you want to

1 check my reading.

2 A I'm sure that you read it correctly.

3 Q Thank you.

4 A If there is a requirement to provide a wholesale
5 discount on what have been defined as telecommunications
6 services.

7 Q And that is the telecommunications services as
8 defined in the act, correct?

9 A It's been awhile since I've read the act. And in
10 fairness to me, I believe it is, but I have not looked at
11 it in probably three years.

12 Q Okay. Well, the act will speak for itself. And
13 if there are some services that an ILEC is not required to
14 resell, it would be because someone concluded that they
15 were not telecommunications services as defined there;
16 would you accept that?

17 A I would accept that. This is the process of
18 lawyers versus markets. If markets say it must be there
19 for it to be viable, the legal right to get a service at
20 wholesale is a market nullity because if the marketplace
21 won't support it without the non-telecommunications
22 service, it doesn't matter that legally you have an
23 obligation -- that Qwest has an obligation to provide it.

24 Q Would you agree that Centrex Plus is a
25 telecommunications service that Qwest has an obligation to

1 resale at a wholesale discount under the act?

2 A I believe it to be. I don't know as a legal
3 conclusion whether that's yes or no.

4 Q Now, the act also provides for competition
5 through the purchase of unbundled network elements,
6 correct?

7 A That's correct.

8 Q Now, are you aware that your client -- if I may
9 use that word?

10 A Yes.

11 Q ATG is in the process of converting its Centrex
12 services to UNES, unbundled network elements?

13 A I do not know their business plans or their
14 business activities in great detail. I'm here to testify
15 on one thing, which is that I personally believe and I have
16 laid out my reasons for that belief that the per location
17 restriction is anti-competitive and not good public policy
18 in my opinion.

19 MR. REICHMAN: Qwest 243, Your Honor.

20 Q BY MR. REICHMAN: Dr. Cornell, I've given you
21 what's been marked as Qwest 243. And I will represent to
22 you that this is a document that ATG filed with the Oregon
23 Commission in docket number UM 962 in December of 2000.

24 I'd ask if you would turn to the page that's
25 number 3 at the bottom. And the first full paragraph, the

1 second sentence -- starting with the second sentence
2 reads: "Through its purchase of Shared Communications Inc,
3 ATGI has a substantial base of customer lines served by
4 resale. However, ATGI is in the process of converting
5 those lines to ATGI facilities and is not pursuing a resale
6 strategy going forward."

7 Did I read that correctly?

8 A That's the statement. Yes, you read it
9 correctly.

10 Q Thank you.

11 MR. REICHMAN: Your Honor, we would also ask that
12 the Commission take official notice of this document from
13 this file.

14 ALJ CROWLEY: Any objection?

15 MR. HARLOW: Same objection, Your Honor.

16 ALJ CROWLEY: All right. Over your objection, I
17 will take official notice.

18 Q BY MR. REICHMAN: Dr. Cornell, you referred to a
19 voice mail awhile ago. Are you aware that the Oregon
20 Commission has ruled in docket -- in arbitration case
21 docketed Arb 3/6 that Qwest must resell voice mail
22 services?

23 A I'm not aware. I don't -- all I know is that in
24 the past Qwest has said no, they will not include it as
25 part of resold Centrex, which kind of closed down -- again,

1 maybe not to zero. But the proper measure of competition
2 is not how many lines are currently being resold, given the
3 hobbling of resale by these various provisions, but rather
4 what would have taken place in the absence of the hobble.

5 Q And I'm just referring to voice mail services.

6 A Yes.

7 Q And you're not aware that Oregon actually does
8 require that to be resold?

9 A Or when. I mean, if it did -- if it does now,
10 did it in 1996?

11 Q You just don't know, do you?

12 A I don't know. That's what I said.

13 MR. REICHMAN: I have no further questions, Your
14 Honor.

15 ALJ CROWLEY: Okay. Mr. Harlow?

16 MR. HARLOW: Thank you, Your Honor.

17 --ooOoo--

18 REDIRECT EXAMINATION

19 BY MR. HARLOW:

20 Q You've indicated a couple of times on cross that
21 Qwest Exhibit 242 does not show what would have happened
22 without the hobbling of the surcharge in per location
23 pricing.

24 Do you recall that?

25 A Yes.

1 Q What do you expect 242 to show without the
2 surcharge and per location pricing?

3 MR. REICHMAN: Objection. It calls for
4 speculation.

5 ALJ CROWLEY: I'm going to allow it.

6 THE WITNESS: Well, I would expect, actually, two
7 things to have happened. One is that initially there would
8 have been a higher number of lines resold. And the second
9 is that Qwest would have moved earlier for a different
10 restructuring of its Centrex service.

11 In keeping with documents that were entered
12 earlier as ATG exhibits in the cross of Mr. Teitzel, Qwest
13 has always faced the dilemma between wanting to offer very
14 low discounts -- well, very high discounts, if I can put it
15 that way, to large customers.

16 And to prevent resale of those discounts, it
17 would have had to come to a different accommodation between
18 those two conflicting desires if it had not been allowed to
19 hobble resale by putting in place a per location
20 restriction.

21 Q BY MR. HARLOW: Now, were the resellers
22 necessarily making money on the resold line counts
23 reflected in Exhibit 242?

24 A No. There's no indication whatsoever of the
25 long-term viability of the competitors who took those line

1 counts. There could have been obligations to customers
2 that required them to get it, even though they didn't have
3 a profitable reselling opportunity.

4 Q Why, in your opinion, would resellers purchase
5 under the per location pricing scheme and the surcharge so
6 many lines in order to lose money potentially?

7 A Because they were not planning to keep on doing
8 it for very long. It was a temporary -- it would have
9 been. If they were losing money, it would have been a
10 temporary measure.

11 Competitive firms, it's an old saw of mine, you
12 cannot lose a dollar on every sale and make it up on
13 volume.

14 Q And it is good for competition for competitors to
15 act in that way?

16 A No. It's not competition and it doesn't last.
17 It isn't surviving in the market in the long run. You
18 don't survive in the market in the long run under those
19 conditions.

20 Real competition requires that over the long
21 term, firms can be in the market, provide service, make a
22 competitive return on investments. And that's what begins
23 to bring all the benefits of competition over the long term
24 to consumers.

25 If the entrants into a market, in fact, are

1 losing money and continue to lose money, you don't have
2 competition. And in the long run, you don't have those
3 entrants.

4 Q And would elimination of per location pricing for
5 Centrex make it more or less likely that you would have
6 entrants and successful competition in the long run?

7 A I think you'd have -- more likely to have more
8 successful in the long run because you would have less
9 hobbling of one form of entry. And all firms ought to be
10 free to be able to figure out their infrastrategy as best
11 they can.

12 The second thing you'd have is that you would
13 have a more diversity of use of the service that U.S. West
14 has designed in one way.

15 I once had an employee that said "I'm a two by
16 four. You can use me any way you want. You don't have to
17 use me to do the kind of work that your predecessors used
18 me for." Just as a two by four doesn't care whether it's
19 on the roof, the wall or the floor of a building.

20 The per location restriction ends up meaning that
21 a reseller can only use Centrex in exactly the same way
22 that U.S. West uses Centrex.

23 Q Thank you, Dr. Cornell.

24 MR. HARLOW: That's all the redirect I have.

25 ALJ CROWLEY: Any follow up, Mr. Reichman?

1 MR. REICHMAN: Very briefly, Your Honor.

2 --ooOoo--

3 RECROSS EXAMINATION

4 BY MR. REICHMAN:

5 Q You said it's possible that a Centrex reseller in
6 Oregon could have been losing money over the years,
7 correct?

8 A I'm saying that's possible.

9 Q It's also possible that they could have been
10 making money over a period of many years, correct?

11 A I think the answer is not very much or you would
12 have seen, despite the hobbling, a lot more resell.

13 Q Do you have any information about the
14 profitability of Centrex resellers in the state of Oregon?

15 A No, I do not.

16 Q And, indeed, Exhibit Qwest 242 shows that Shared
17 Communications existed at least as early as June, 1994,
18 correct, in paragraph 2?

19 A Yes, they must have existed in June of 1994.

20 Q And you acknowledged earlier that you had heard
21 that they were recently acquired by ATG, correct?

22 A Yes. But that could be a distress sale by its
23 former shareholders.

24 Q But it would show that they had at least survived
25 for six years, would it not?

1 A You can survive for six years without being
2 profitable.

3 Q But as far as you know, Shared Communications
4 could have been wildly profitable, you just don't know?

5 A I don't know.

6 Q Thank you.

7 ALJ CROWLEY: Mr. Harlow?

8 MR. HARLOW: Your Honor, I have one follow up.

9 --ooOoo--

10 REDIRECT EXAMINATION

11 BY MR. HARLOW:

12 Q You're aware, Dr. Cornell, Qwest is also
13 proposing substantial rate reductions for basic business
14 service, which is the service that you and Qwest have
15 identified as competing with the Centrex resellers, have
16 you not?

17 MR. REICHMAN: Your Honor, I think this is
18 outside the scope of my last questions.

19 MR. HARLOW: Your Honor, it relates to the issue
20 of the long-term profitability of Centrex resellers

21 ALJ CROWLEY: I'll allow it.

22 THE WITNESS: Yes.

23 Q BY MR. HARLOW: And what impact does that have
24 potentially on the long term profitability of Centrex
25 resellers and the need for your recommendation to be

1 A The new rate in rate group 1 I believe is
2 someplace around \$26 and something. And I cannot remember
3 what the previous rate was, but it was higher than that.

4 Q Are you aware that the current effective rate for
5 a 1FB in Zone 1 is \$26.40?

6 A Yes. But it hasn't been for very long is my
7 understanding.

8 Q But that's the current rate, regardless of what
9 happens in this proceeding, correct?

10 A I believe that is correct, subject to check. My
11 understanding is that it wasn't that, that it was higher
12 in the very recent past.

13 MR. REICHMAN: Nothing further.

14 ALJ CROWLEY: Any follow up to that?

15 MR. HARLOW: Well, Your Honor, we'd like to ask
16 you to take official notice of some of the prior tariffs of
17 post hearing, if we may. We don't have those documents
18 with us today.

19 ALJ CROWLEY: Okay. Certainly.

20 MR. HARLOW: Thank you.

21 ALJ CROWLEY: Is that it for Dr. Cornell then?
22 Thank you, Dr. Cornell. You're excused as a witness.

23 THE WITNESS: Thank you.

24 ALJ CROWLEY: I think we're holding the record
25 open only for a date from you on -- let's see. One of the

1 data requests.

2 MR. REICHMAN: Right. For Qwest's.

3 ALJ CROWLEY: Qwest 239.

4 MR. REICHMAN: Correct.

5 ALJ CROWLEY: And you were going to look into
6 your pro hac vice status, Mr. Harlow?

7 MR. HARLOW: Yes, Your Honor.

8 ALJ CROWLEY: To see whether you were going to
9 file that. And I think that concludes our business for
10 today. Anything further?

11 With this rush hour, it's gone now.

12 MR. HARLOW: We appreciate you going late so we
13 could wrap up our witnesses today.

14 MR. REICHMAN: I believe we already have a
15 briefing schedule established.

16 ALJ CROWLEY: We have a briefing schedule
17 established. It's in the prehearing conference memorandum.
18 And my recollection is that opening briefs are June 29th
19 and reply briefs are July 16th, but that's subject to
20 check.

21 MR. REICHMAN: We'll accept that subject to
22 check.

23 ALJ CROWLEY: All right. Then we're adjourned.
24 Thank you very much.

25 (Recess taken)

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REPORTER'S CERTIFICATE

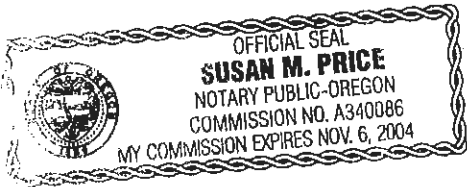
STATE OF OREGON)
)
County of Polk)

I, SUSAN M. PRICE, Court Reporter and Notary Public for the State of Oregon, do hereby certify:

That the foregoing transcript was taken down by means of stenotype at the time and place therein named, and thereafter transcribed by means of computer aided transcription, and that the foregoing transcript contains a full, true and verbatim record of the said proceedings, pages 536 - 707.

I further certify that I have no interest in the event of the action.

WITNESS my hand this 13th day of June, 2001.



Susan M. Price

Susan M. Price
Court Reporter

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\$14.37 646:16
 \$18.82 646:18
 \$2.60 722:8
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 \$21 718:5,14,25 719:3,7,12,19,23
 720:6,8,17,24 721:3,16,19 722:16
 760:13,17 761:12,15
 \$212.70 687:22
 \$23.40 722:11
 \$26 721:23 792:2
 \$26.40 792:5
 \$3.64 686:20 687:6 691:24
 \$33.62 646:19
 \$5.40 779:16
 \$55 772:10
 \$64.2 700:3
 \$8.87 687:23,23
 \$8.92 556:24 557:6
 \$87.37 686:19
 \$91.5 682:4

0

0 736:16 739:7 763:16
 011020 671:17
 011038 671:16
 02-004S1 688:6
 02010 684:5
 03-008 570:25 585:2 586:6,12 627:
 17 710:18 715:18
 03-011 576:9
 03-012 584:1 585:12
 03-019 650:16
 03-021 624:17
 03-03 624:17
 03-030 626:19
 03-032 733:24 735:11 737:21 738:
 3 741:11 775:14
 03-033 730:20
 03-035 618:18
 04-036 627:5
 04-037 587:2
 04-039 582:6
 04-040 588:14 731:21
 04-045 736:7 737:11 738:7 739:23
 741:9,10
 05-050 596:13 618:11
 05-053 595:25

1

1 536:1 556:1 558:12 605:7 606:4,
 19,21 642:21 643:8,22 644:9,9
 645:21 646:4,5,7,11,16,21,24 704:
 17,17 709:16,20,23 710:2 728:3
 730:7 745:20 751:17 760:15 766:2,
 6,17,18 773:5 792:1,5
 1-003 726:2
 1:30 637:12
 10 538:1,2,4,11,14 595:20,22 596:2
 658:13 681:7,9,21
 10-10-288 620:17
 100 643:23 690:24 692:1 693:10
 101 643:23 691:8
 10th 658:16
 11 596:9,11 600:14 610:14 618:9,
 10 692:8
 11020 672:3
 12 618:8,15 623:19 692:9,18,21
 120 690:25
 125 536:4 557:23 575:18 587:14
 645:8 700:3
 13 624:11,14 626:5,10 734:12 736:

4 740:6,7 742:6
 13.80 606:5
 14 610:24 626:13,16,21 636:24
 734:1 774:9,15
 14.80 606:6
 147 750:6
 15 567:25 594:11 626:24 627:2,19
 628:11,16 645:10 736:17 737:4
 738:11,14,21 739:7 763:16 764:15
 15.80 606:6
 150 690:25
 15th 733:5,11
 16 740:4 766:25
 16,000 776:11
 163 614:15
 16th 793:19
 17 740:4
 1849 645:9
 19 582:19 588:3
 1980s 641:10
 1990 778:13
 1990s 665:19
 1991 584:22
 1993 668:2,19,22 670:7,15,19 676:
 4,7 677:5 777:23
 1994 789:17,19
 1995 682:19 776:11 777:19 779:20
 780:3
 1996 543:1 614:3 670:8 678:21,25
 723:17 747:9 776:15 780:14 785:
 10
 1997 573:3 658:13,16 659:3,22
 661:16 726:24 728:6 729:22 733:5,
 11 734:2 736:3,3 738:9 775:2 776:
 17
 1998 776:20 777:19 779:21 780:3
 1999 564:13 565:12,16 567:3,15
 571:19 583:6,12 594:9 624:22 625:
 17
 19th 603:21 605:7 608:6 644:14
 645:7,24
 1FB 701:20 702:4,16 721:23 722:
 16 770:11,21 771:10 773:12,15,24
 791:23 792:5
 1FR 701:21 702:4,16

2

2 605:9 606:5,20 623:25 624:1 646:
 4,11,17,25 658:5,10 709:17 718:6
 745:21 766:2,7,14 789:18
 20 557:5,13,17,18 642:21 643:1,8,
 22 644:9,9 645:21 646:5,7 704:17,
 17 761:11 770:5 772:8
 20,000 707:2 708:10
 2000 567:25 568:17 571:17 575:18
 578:4,10,24 580:13 582:19,20 588:
 3 594:9 625:5,17 645:10 715:18,
 21 730:23 783:23
 2001 536:1 644:14 645:7 733:19
 201 568:17 569:17 591:22
 202 606:2
 21 638:21 640:11,12 642:22 643:8,
 22 683:19 684:2 685:9 706:16 734:
 5 767:1 770:23,24
 210 684:10
 212 583:19
 217 686:12
 219 557:4 559:12,17 561:23 562:
 11 574:2,4,8,8 579:21,22 591:17
 602:22 605:19 606:7,18 607:16
 608:4,6,12 612:12,25 686:3 688:2
 710:24 711:3,6,13 716:7,9,9

21st 642:23
 22 734:5 761:22
 222 570:10
 223 573:15,25 574:4 710:18 711:4
 715:9 716:13
 225 648:22 651:8 655:4
 228 536:20
 23 571:17
 233 715:16
 238 537:17,23 538:5,8
 239 725:20,23 726:14 728:1 793:3
 23rd 578:4 625:5
 24 686:20 687:8,10,13,22 689:17,
 20 690:2,11 691:24 693:14,16,25
 240 730:16,19 735:2
 241 734:25 735:9 775:10,12
 242 775:9,21,23 778:5 785:21 786:
 1,23 789:16
 243 783:19,21
 25 776:15
 251 613:7 630:10 747:8,15,17 749:
 21 750:1,12,16,18
 252 613:7 630:10 747:8,15,18 748:
 2,16,24 749:4,5,21 750:1,12,16,18
 252(d 748:17,18 749:13
 252(d)(3 748:16
 26.20 605:8 646:24
 2659 537:24
 2659-6 538:3
 27 738:8
 271 685:3
 276 542:25 543:7,12,18 544:2,8,12,
 13,17 549:4,5,10 550:1,2,4 552:9
 572:24 613:6 745:21 750:13,15
 755:16,16 757:24 758:14,17
 27th 736:3
 28 730:4 732:25
 28.70 605:9 646:25
 29 656:3,17
 29th 736:3 793:18

3

3 578:3 583:22 592:7 605:9 606:6,
 20 616:10 646:4,11,19,25 650:12,
 14 654:6,7 709:17 710:6,10,12,21
 711:8 715:13,13 718:6 745:21 746:
 21 755:24 760:16,19,23 761:5,20
 766:17 783:25
 3,305 684:6
 3-008 715:14 716:13
 3.4 739:2
 3/6 784:21
 30 668:2 672:3 692:25 736:20,22
 738:22
 30,000 708:13,15 775:6
 30.70 605:9 646:25
 300 643:9,9,24 695:2
 301 643:10,24,24 644:5
 31 672:5 683:16
 312 583:22
 32 658:11 682:14 692:20
 33 733:22 735:14 737:13 740:4
 741:15 762:21,21
 335 776:1 777:10 779:1
 35 610:23 667:7
 36 685:9
 38 584:23 589:14
 38,000 775:3 776:18

4

4 654:3,17 656:15 658:4,8 665:1
 666:9 667:6,7,23 671:4,5,14,14

672:11 682:17 688:2,9 709:17,24
 710:3,12,21 711:7,8 714:8 715:13
 735:23 736:13 745:22 746:21 751:
 17 760:15 774:15,23 776:7 778:5
 4-45 735:21
 4-7 558:13
 4.6(f 558:13
 4.8 736:23 737:1 738:6,9 739:2,18
 763:4,12,17
 40 736:20,22 738:22 769:11
 41,000 776:21
 4224 584:21
 44 584:23 589:14
 45 736:24
 4531 584:22
 47 584:18 589:11
 48 690:11
 492 616:11

5

5 555:25 570:20,22 573:15 574:7,
 11,17 578:2,5 585:5 627:15,15
 657:9,16 658:8,18 659:19 660:2,
 18,25 661:4 666:3 701:15 774:15
 776:14
 5-0 707:25
 50 610:24 626:6 643:8,22 689:7
 707:25
 50,000 707:24 708:1
 500 643:11,13 644:4
 509 663:17
 50th 642:23
 51 642:24 643:3,8,8,23 685:17 687:
 6 688:14 690:5,8 691:16 693:9
 766:23
 510 663:20
 514 663:19,20
 55 540:20

6

6 576:4,6 577:21 581:15 584:21
 665:6,12 666:2,24 667:22 671:5,
 14 776:17
 61.49(g 584:18 589:12
 64.2 700:9
 68 656:5
 68504 657:16
 690 584:19

7

7 581:22 582:4,11 583:4 667:2 724:
 5 730:7 733:23 741:12 778:5
 7-6-93 676:2
 731 718:10,14
 733 579:10
 74 744:5
 773 559:14 594:16 612:12,17

8

8 537:25 538:4,7 585:14 586:16,22,
 24 587:1,24 666:12,14 667:21 670:
 2 671:3 724:5
 8.87 691:24
 8.92 557:24
 80s 664:11
 844 579:10 612:15,17 717:13,23
 746:2 747:1 751:23
 85 568:8 581:3 678:5
 87.37 687:8
 89-79 584:21
 8th 614:3

9

9 575:7,15 588:8,11 595:17 669:18

670:25 672:18 675:22 676:3 679:14 692:21 703:1	across 646:3,7,10 714:12 778:2	600:3,25 601:10 603:14,18 610:5	answered 550:24 559:10 589:19
91 658:3	Act 543:1,3,8,18 544:3 552:10 572:25 592:19 613:7 670:7 678:21,25	611:6,11 612:10,21 617:2 623:7	623:6 749:18
95 695:12	679:9 722:2,25 723:9,15,16,17	626:6 635:15,18 647:14 650:7,22	answering 545:7 551:16 575:22
950200 681:18	730:12 731:18 747:8 748:16,18	652:19,25 667:14 670:13 672:14	616:25
96-128 614:2	757:24 778:11 780:14 781:11,19,	675:18 677:19 693:16 698:12 699:23	answers 553:5 696:18
96-439 613:16	20,25 782:8,9,12 783:1,4 787:15	708:12,14 747:7 755:16 770:19	anti-competitive 783:17
962 783:23	activities 783:14	771:6 773:13,23 780:13,22 781:19,	anti-trust 649:4 651:12,16 652:10,11,20,22
97 736:24 738:25	actual 686:1 743:21	20 782:24	656:22,25 660:25 662:1,17
97-140 736:2	actually 538:11 548:18 593:13	agreed 538:25 650:17	665:14 667:9 671:1,9,10
974 669:6	599:1 628:14 640:6 675:24 695:8	agreement 633:6 635:21 636:1,20	anticipate 650:3
978 673:7,11	704:17 711:7 716:25 724:16 725:7	722:5	anxious 691:3
98 679:15	726:20 732:19 737:15 757:21 761:19	ahead 537:14 563:20,24 573:23	anyway 567:2 734:22
98-372 779:2,5	785:7 786:6	579:7 585:25 594:23 612:3 681:6	apart 697:7
981 675:23 676:8	ad 561:12,14	686:13 740:8 781:1	apologize 548:10 768:17,19 771:14
988 679:13,16	add 559:25 588:17 606:15 607:25	akin 745:6	14 773:16
99 572:8 580:13 582:24 594:11	609:11 617:15 688:12	ala 771:10	apparently 656:8,13 662:3 689:25
630:16 715:10 717:1	added 576:17 717:24	Alexander 668:6	729:12 776:3
A	adding 564:8	align 689:25 704:22	appeal 551:15 653:15,17 662:4
A-N-I 622:7	addition 672:9 681:23 742:11 750:17	allegation 600:15,20	appealed 651:9 653:14
ability 548:17 597:2,19	additional 561:15 562:25 585:7	allege 735:17	appear 655:5 658:17 661:3,17
able 578:8 599:18 625:13,22 632:2,11,15,20	670:5 690:18 691:8 766:21	alleged 754:19	672:10 688:11 691:19 730:19 780:2
684:17,22 704:13 788:10	additionally 587:21	allocated 694:8 728:5	appearing 536:5
abolish 778:14	additives 605:10 606:1	allocating 744:11	appears 589:12 661:7 666:15 671:16
above 560:7 568:6 569:8 576:11	address 537:13 641:3 645:5 751:10	allocation 560:11 562:11 744:7,23	16 676:2 681:19,25 683:2 684:16
577:22 578:15 591:2,24 642:24	addressed 543:4 570:9 759:12	allow 567:10 590:6 598:7 613:3	685:11 688:15 691:14 728:23 729:6
643:2,13,25 691:16	addresses 565:7 670:10 694:17	621:16 655:23 692:24 721:7,12	743:25 761:23 775:25 779:22,25
absence 780:10 785:4	705:4 751:10	763:4 786:5 790:21	appended 593:10
absolute 724:8	addressing 751:7	allowed 558:20 593:3 735:22,25	applicable 556:24 557:3 583:12
Absolutely 563:14 705:9 707:13	adds 682:11	737:1 738:4 747:24 758:14 786:18	606:13
749:2	adjoining 696:1 697:7	allows 559:24 560:10 638:13	application 552:18 616:16 750:16
abundantly 732:16 748:25	adjourned 793:23	alone 689:15 773:15	16
abuse 656:6 662:19	adjust 721:11	already 539:22 544:22 559:10	applications 748:11 749:22
accept 542:4 556:23 558:14,20	adjusting 634:18	605:21 616:1 623:5 692:15 707:8	applied 745:2 748:8,9,10,23
559:1,3,5,8 564:15,22 570:7 573:7	adjustment 758:20	793:14	applies 552:13,21 553:12 555:17
600:21 611:5 614:8,12 625:13 642:7	adjustments 605:12	alternative 632:6 705:21 729:19	556:18 616:25 719:5 741:16 760:2
654:24 655:7,13,19 660:24 665:14,16	Administrative 709:3 765:11	746:20,25 747:3 751:15,15,19	apply 552:14,17,23 556:15,21 558:18
671:11 681:15 684:4 769:15	admissible 650:23	alternatives 609:13 706:6	18 615:10 617:3 629:15 632:19
771:6 772:6,13 779:13 782:16,17	admission 536:12 683:13 692:10	Although 729:12 778:16	642:21 657:21 722:19 748:19,20,
793:21	726:14 735:2	amenable 607:6	21 749:14,19 750:12 781:8,9
acceptable 595:12	admit 589:9 664:22 670:23 683:7,11	amendment 537:25	appreciate 557:9 562:8 582:17
accepts 557:8	admitted 536:21 538:15 539:24	amendments 538:4,4 584:18	584:15 622:16 654:16 737:20 739:3
access 541:12,19,22,23 542:1 545:19,25	568:3 574:18,25 581:18 582:14	among 629:1 700:19	749:7,12 772:14 775:11 793:12
546:21 547:14 548:5,15,22	588:7 594:12 595:18 596:8 618:14	amount 554:9 598:6 611:7 718:20,	approach 558:22 564:7,11 565:4
549:1 555:18 556:21 557:25 558:16	624:1 626:12,23 627:22 654:10	22 719:9,14,19 727:23,24 743:2	566:1 568:13 573:22 583:14 613:15
564:2 577:13,13 584:20 587:4,11	664:18 666:25 667:19 672:20 692:12,14,15	744:22 762:5,16 779:15	15 686:11 688:4 746:20
598:9,11,13 600:2 602:16,17,18	675:7 766:9 775:18 777:3	analogue 639:25 640:10,17 664:1	appropriate 537:12 598:4,21 628:1
603:7 604:21 606:24 607:13 608:23	adopt 746:21	analysis 554:6 565:15 568:23 604:11	682:17 710:25 717:21 718:3 732:18
609:3 617:14,19 620:13 621:11	adopted 572:24 592:13 614:3 699:21	11 723:23 743:3 745:24	763:4,8
624:24 625:8,15,16 626:7 629:16	21 736:3,16 761:3	analyst 686:5	approval 676:18
630:19 632:2 640:17,17,19 644:15	Advanced 540:15	Andrew 658:12,15,20,21	approved 577:11 579:9 668:24
655:20 684:23 685:1,5 695:3 731:11	advantage 754:14,18,20 758:20	ANI 622:4	677:21,23 679:8,11 687:7 746:1
732:9 744:11 756:10 758:3 769:25	Advice 645:9	announced 610:21 634:13	747:1 751:24
770:2,3,6,6,9,9	affected 767:14	announcement 610:25 611:1	approximate 594:5 683:14
accessing 647:19	affidavit 775:25	another 551:13,13 561:11 576:24	approximately 624:23 641:7 722:11
accommodation 786:17	affirmative 791:19	610:16 628:3 632:3,6,8 642:24	772:9
according 574:11 607:20 676:7	affirmatively 592:20	643:11 671:22 690:11 693:10 698:3	approximation 594:17 595:1
699:16	afraid 692:22	702:16 707:8,11 725:6 756:7	April 573:3 575:18 733:5,11 776:20
accounting 542:11 755:10,13 756:2,14	afternoon 637:20,21 655:22 701:12,13	759:6 770:8	777:19 779:21
758:6 759:7	12,13 714:23,24 767:22,23	answer 548:12,23 549:14,18 551:9	Arb 784:21
accurate 643:7 774:21 776:24	ago 610:22 639:15 668:14 673:2	9 553:11,21 563:5,22 574:12 576:2	arbitrage 664:15 701:20,24 702:5,
accuse 737:8	784:19	2 588:18,22,25 589:1,5,20,23,25	13 703:8,12,24 704:14
accused 537:18	agree 543:11,15 552:20 554:11	590:2,22 591:5 592:12 597:5,8	arbitration 784:20
achievable 700:25	555:6,14,16 556:5 563:12 564:6	599:10 600:24 601:14 613:2 615:18,23	architecture 584:21
achieve 700:5,9	565:11,14 566:20 568:20,22,23	616:18 617:4 622:14,15,15	area 553:10 587:10 632:7 653:4,5
achieving 700:3	570:7 577:3 578:9 579:7 580:17	625:21 627:7,17 632:7 633:2 635:23	697:19 728:5,17
acknowledge 633:17 751:18	587:16,20,23 594:16,24 599:16	656:9,12 660:22 691:18 693:1	aren't 612:19
acknowledged 645:13 789:20		696:22,23 698:20,22 700:6 725:11	arena 622:12 668:11
acquired 768:25 789:21		739:3 740:2 747:17,19,24 748:4	argued 666:3
acronym 539:12 557:25 601:19		749:7,11 766:17 768:23 780:21	argument 566:15,17
669:15,18		789:11	arguments 547:9

Arid 589:12
 Arizona 639:14 661:8,12
 arose 552:9
 around 537:20,22 594:13 700:4
 733:13 792:2
 arrangement 538:25
 array 640:14
 art 599:11
 ascertain 725:1
 aside 601:9,10 640:8 662:8
 asks 627:16 729:6 737:21
 aspects 640:9
 aspersions 704:10
 assert 670:9 730:10 732:8
 asserting 748:15,17
 assertion 734:13
 associated 555:8 718:23 731:23,
 24
 Association 539:2,6 540:14,17
 542:21 584:5 595:7 627:7 708:25
 728:8 729:25 733:20 775:14
 Association's 726:1
 assume 546:21 552:6 648:19 672:
 8 688:22 690:15 695:21 721:21
 726:22 760:23 772:11
 assumed 608:6 685:16
 assumes 676:22
 assuming 615:9 691:24 692:1 698:
 14
 assumption 560:9 648:6
 assumptions 648:17 702:21 780:
 18
 assured 537:1
 AT&T 536:5,24 537:2 538:1,2,4,
 10,14 620:17 750:11,23 751:1,2,3,
 11
 ATG 540:14 637:23 650:11,14
 653:24 654:3,17 656:15 658:4,17
 661:10,20 665:1,6,12 666:2,24
 668:1 671:3,4,5,14 672:11,18 675:
 3,6,9,14,19,22 676:3 679:13 681:9,
 21 688:9 692:8 701:15 703:1 765:
 8,21 766:2,2,6,7,14,17 767:1,25
 768:8,9,9,24 783:11,22 786:12
 789:21
 ATG's 650:15 660:25
 ATGI 784:3,4,5
 Atlanta 765:1
 Atlantic 742:12,15 762:20,24 763:
 14
 Atlantic's 738:17 742:2,18
 attach 671:20 741:6
 attached 653:22 660:18 661:2,22
 672:6 740:24
 attachment 626:4 648:22
 attempting 566:2
 attempts 579:4
 attention 660:14 669:14
 attorney 553:18,22 591:11 593:9
 613:14 651:13,23 655:25
 attract 770:14
 attributes 601:9 602:12 635:6,11
 audience 660:14,15
 augment 553:17 633:2 678:13
 August 777:23
 authenticity 667:14
 Authority 743:10,22
 authorized 636:8,15
 available 541:2 600:1,4 610:13,19
 629:4 683:21 703:20 706:21 714:
 17 728:15 729:9,15 750:18 756:22

767:15
 average 592:7 645:24 646:3,7,10,
 15,17,22 647:1,2,4,7 772:24 773:4
 averaged 691:15
 averaging 773:6
 avoid 619:13 703:7 754:14 758:8
 aware 610:21 621:10,14,15 651:7
 655:15,24 664:24 675:14 677:14
 678:2 684:24 715:20,23,24 716:5
 717:5,6,8,25 721:25 727:19 731:8
 742:23 743:5 755:5 756:9 768:24
 772:1 775:2,5 777:13,17,22 778:4,
 13 780:13 783:8 784:19,23 785:7
 790:12 792:4
 awareness 621:20
 away 770:11
 awhile 782:9 784:19

B

back 569:19 577:2 578:2 580:7
 584:25 586:12,20 592:11 602:22
 610:14 619:8 637:12 641:23 670:
 12 676:3 685:12 701:7 733:10 736:
 24 760:12 772:23
 background 649:9
 Bailey 536:6,7,8,8,25 537:9
 ballpark 625:14
 Balzer 658:12,15
 bank 695:12,12,16,21 696:2,3,9,10,
 17 705:15,16
 banks 638:6
 barber 694:20,22 695:4
 base 622:17,21 675:15 724:13 749:
 3 759:25 771:4 784:3
 based 542:13 544:21 554:9,16 555:
 17,19 559:11,21 579:5 580:20 582:
 23 583:8 595:1 598:8,16 600:16
 612:15 641:20 648:6 656:11 664:
 10,12 670:17 675:16 676:18 691:
 24 702:21 710:16 711:15 714:10
 715:8 718:9,14 721:7,16 722:18,
 19 723:2,4,5,7,9,12,14,21 736:23
 742:22 745:22 748:3,4,13 759:16,
 24 761:21 762:8,9 763:10 768:12
 773:20,21
 basement 697:3
 basement's 697:5
 basic 545:10,24 546:3,14 547:25
 587:9 592:6 601:25 602:1,13 603:
 3,16 604:20 605:19 606:16 614:16,
 22 616:20 617:18 618:23 626:7
 629:2 630:19 631:3 706:23 718:25
 719:8,12,18 720:7,8,17 721:22
 731:11 761:25 769:8 770:20 771:
 19,20 790:13
 basically 541:14 545:17,24 564:
 19 566:10 571:1 580:18 591:17
 595:5 597:1 689:2
 basing 579:9
 basis 546:3 560:8 572:21 596:18
 602:18 607:16 608:3 638:15 640:
 23 641:14 643:17,18 644:1,6 648:
 21 655:12,13 664:2 675:12 682:20
 685:12 686:3 689:15 695:19 700:1
 703:17 705:6 710:19 727:19 733:9
 739:15 747:19 767:12 774:6
 bear 761:1
 bears 760:24,24
 became 716:5
 become 598:24 622:13
 becomes 688:13
 began 657:22

begin 701:5 733:12
 beginning 581:22 642:22 643:10
 722:25 767:1
 begins 766:17 787:22
 behalf 540:5 685:3 708:25 709:11
 765:21 768:8,18,21
 belief 599:8 633:3 635:19 732:1
 783:16
 believed 631:25 635:12
 believes 552:25 593:7
 Bell 668:3,4,9 738:17 742:1,12,14,
 17 755:16 757:17,25 762:20,24
 763:13
 Bell's 668:8
 below 614:18 702:24
 Bench 613:22 667:8 718:4 719:2
 720:6,8,20 721:20 760:13 761:17,
 23 762:1,2
 benefits 787:23
 Berlinberg 658:12,15,20,21
 best 637:1 788:10
 better 669:11 737:16 774:13
 between 562:15 567:15,20 573:3
 578:24 580:9,12,18 602:12 607:13
 622:10 630:19 631:3 643:23 648:1
 702:6 703:8 704:6 719:19 729:22
 755:11 756:3 761:14,25 786:13,17
 beyond 560:13,25 562:18 640:15
 718:19,20 745:23
 BGS 669:18
 Bill 537:24 538:2
 billed 620:13
 bills 538:12
 bind 636:8,15
 binding 553:3 592:21
 bit 567:11 602:3 607:15 734:1 741:
 15 759:10 773:11
 blacked 669:9
 blah 740:6,6,6
 blanket 768:2 780:20
 block 554:16 638:8,11,12 639:2,3,
 8 695:22 696:4,11,12 717:17,18
 757:19
 blocks 559:22 629:25 717:14,22
 BOC 757:24
 book 568:2 675:25
 both 542:16 543:4 546:6 547:5
 551:7 570:1 572:1 581:5 598:19
 620:11 631:11,13,13,16 633:14
 640:21 642:17 647:11,11,17,19,22,
 24 675:11 697:1 702:7,10 703:14
 704:2 710:19 723:18 757:18 768:
 11 770:2
 bottom 663:18,19 703:4 735:16
 740:2 783:25
 bottoms 564:7,10 566:1
 boxes 714:11
 brackets 610:12
 Brad 593:23
 branch 705:14
 break 581:23 582:2,3 595:12 628:
 16 637:11 641:24 642:22,24 643:4,
 10,11,15 644:4 688:25 689:20,23
 690:5,20,24 691:8,17 701:5 765:3
 breaks 642:11,20 643:7,22 689:24,
 25 690:1 704:16,18,22
 bridge 721:10
 brief 628:19 791:8
 briefing 793:15,16
 briefly 565:7 587:7 608:24 611:14
 699:3 789:1

briefs 793:18,19
 Brigham 558:9 569:8,9 579:20
 686:6
 Brigham's 554:19 557:12,24 569:
 4 571:8 691:14,19 694:3
 bring 543:14 566:20 685:8 695:8
 787:23
 broad 561:11 739:20,21,23
 broken 586:2 728:8
 brought 543:12
 building 554:15 559:21 629:24
 641:4 673:4 675:8 689:11 695:6,
 12,24 696:2,4,9,11,12,16,17 697:3,
 4,5,6,13,19,23,24 698:3,4,13 705:
 16,20 717:14,17,18,22 788:19
 built 677:12,15
 bullets 703:5
 bundle 617:18 781:12
 bundled 617:11
 Bureau 611:17 733:8 759:14
 businesses 600:21 630:25 769:4,
 21
 buy 598:5 633:4 635:20 695:23
 771:10

C

C-A-L-C 557:5,22
 c-i-l 539:8,10
 C-o-r-n-e-l 765:15
 cable 634:10 648:15 683:19 684:1,
 18,22,24,25 685:4,24 690:17 697:6
 698:6
 cables 697:2
 CALC 557:5,21,25 558:8 587:18
 604:15 605:10,22,24 606:1,7,11,15
 751:24 754:13 759:3
 calculate 608:2 687:5
 calculating 691:15
 calculation 608:10,13 625:25 688:
 15
 calculations 699:6,20 714:8 767:
 3
 call 536:8,16 539:16 542:13 551:
 18 617:17 620:18,23,24 621:6 632:
 8 638:14 640:18 687:16 708:24
 740:1
 called 554:12 564:10 629:2,2 638:
 21 639:6,18 652:11 709:11 765:21
 768:25 772:2,7
 calling 537:8 610:10 611:7
 calls 545:19 547:12 549:14 553:7,
 23 592:24 610:23 611:9,25 613:2
 615:20 620:19 621:19 651:20 765:
 8 771:11 786:3
 came 669:9 717:24 722:25 760:1
 768:20 777:22
 cannot 693:5 727:14 787:12 792:2
 cap 719:7,23
 capability 621:25
 capacity 687:9 693:11 694:2,9
 capturing 791:17
 care 788:18
 careful 562:7,9 763:9
 carefully 729:8
 Carey 658:12,15
 Carol 593:20
 carrier 554:25 555:10 611:17 620:
 9 632:23,25 648:14 685:23 719:19
 721:7 722:18,19 723:3,4,5 759:14
 781:22
 carriers 720:23 723:2 750:19,20
 780:17 781:24

<p>carries 687:10 carry 703:17 carte 771:10 Case 536:4 538:12 568:8 569:3,3 579:17,17,19 583:7,8 592:4 606: 11,19 630:16 632:19 639:14 642: 15 643:17,25 644:5 648:25 649:4 650:19,19 651:5,12,16 652:10,20, 21,22,25 653:2,10,24 655:16 656: 23,25 657:2 660:15 661:11,25 662: 1,17 665:14 671:1,9,10 681:25 682:10,19 699:13 702:2 703:13 715:24 717:3 731:2 746:23 748:24 764:8,11 768:6,13 772:19 776:3 781:7 784:20 cases 580:22 cast 704:10 catch 570:11 category 691:17 caught 551:5 633:25 cause 631:22 causes 587:21 cautious 562:1 563:2 caveat 550:18 576:1,23 583:11 604:22 612:2,7 613:5 696:24 CC 584:21 614:2 736:2 cease 631:22 cell 633:24 634:3 cellular 611:8 724:7 cent 610:22 center 595:10 699:17 767:11 central 545:22 620:2 638:10,13 694:13 697:22 705:22,23 cents 610:24,24 736:17 737:4 738: 11,14,21 739:7 763:16 certain 550:22 551:25 556:19 558: 9 566:1,11 579:14 592:10 603:21 609:20 611:7 614:23 616:21 620: 19 629:12 644:19 658:22 660:14 669:3,4 676:17 678:13 679:10 681: 13 698:19 702:21 703:16 704:12 755:19 Certainly 547:18 585:19 614:7 617:2 633:2 640:3 645:18 651:14 664:23 670:13 679:7 685:22 695: 20 704:11 706:20 725:12 727:9,18 730:3 739:4 742:23 743:5 745:8 758:11,11,12,14 762:1 774:12 778: 10 779:22,25 780:5 792:19 certificate 725:9 cetera 766:20,23 773:8 CFR 584:18 589:11 592:1 chance 583:23 653:16 change 553:20 580:12,20,21,23 592:8 600:11 605:11 678:23 679:6 710:25 714:12,13 732:2 774:22 changed 539:3 578:22 579:16 581: 13 604:3 608:6 679:4 727:2 changes 543:13,15 583:9 587:9 603:23,24 605:14,16 642:12 716:6, 6 changing 574:16 576:1 591:1 623: 11 699:23 732:1 characteristics 702:18 characterization 543:12 550:2 560:5 569:1 585:15 587:3 594:25 751:25 characterize 545:6 563:9 597:7 600:19 734:11 751:18,21 charge 547:12 555:12,13,15,16,17 556:10,11,15 558:1,3 587:16,17,21</p>	<p>634:13 668:9 735:25 736:20 737:3, 7 741:20,22 742:8 754:13 759:3,5 766:19 charged 547:21 548:14 584:20 charges 556:21 557:1 604:14 606: 12 620:12 621:5 629:12,12,15 751: 25 759:2,2,8 762:8 check 556:23 558:14,21 559:5,8 564:16,23 565:10 570:7 573:8 614: 8,13 625:14 637:3 643:6 654:25 655:7,19 660:24 665:15 671:11 681:15 684:4 769:15 771:6 772:6, 12,12 774:10,14 782:1 792:10 793: 20,22 chief 759:13,16 chime 582:3 choice 621:17 639:8 770:22 771: 12 772:2,7 choose 633:10 771:20 choosing 702:6 704:6 chose 756:23 chosen 617:17 Circuit 651:9 653:21 685:18 687: 10 689:17 693:12 circuitry 688:18 circuits 687:11 691:25 circumstance 722:16 circumstances 698:19 citation 736:8,9 750:24 cite 557:20 584:7 591:25 734:8,17 738:25 cited 592:1 616:15 735:17,18,19 736:15 737:12 743:7 762:20 cites 569:20 734:7 736:2,4 739:22 claim 731:13 732:12 736:25 737: 24 739:20 774:5 claiming 739:4 clarification 568:12 577:3 582: 17 612:14,16 642:14 700:17 clarify 547:17 548:3,9 550:11 551: 15 556:9 582:18 587:15 601:8 629: 21 650:22 685:25 687:4 688:17 clarifying 547:22 classified 561:21 703:22 clause 750:23 774:20 clear 553:1 572:5 589:4 590:2,15 617:21 628:25 630:17 643:20,21 651:1,23,25 662:18 673:14 686:4 706:9 732:16 737:3 744:25 745:17 748:25 749:2 761:24 766:14 clearly 579:5 637:6 663:5 664:17 693:14,18 723:1 740:6 CLEC 632:9,15,20,23 633:4,10 635:25,25 636:18,19 707:11,13 721:7,12,15 722:15,17 768:12 781: 10 CLECs 685:8 719:5 720:25 721:4 client 631:4 637:22 768:5,7 770:4 783:8 close 648:4 closed 724:13 742:15,19 774:11 781:24 784:25 closely 745:6 closer 683:14 co-located 673:4 coalition 733:6 Coie 655:25 coin 541:9 545:18,21,25 546:5,10 547:12,23,24 548:17,19 551:2,7 556:16 610:23 615:10 617:16,19 619:25 620:3,6 634:13</p>	<p>coins 545:19 548:24 551:18 collect 621:5 728:11 collection 545:18 collocation 748:11 Colorado 661:9,12 column 559:14,17,20 608:11 612: 13 710:8,13 711:10,10,12 717:10, 10 718:6 760:25 761:2,5,9,15 combination 700:5 720:22 combinations 683:22 combined 707:1 come 561:12,19 592:11 697:18 698:4 718:21 722:15 736:24 760: 12 762:15 786:17 comes 615:16 689:17 714:16 755: 24 comfortable 542:2 607:4 655:10 coming 667:7 697:14 comment 569:25 654:10 comments 572:2 commercial 694:12 Commission 537:24 538:6 543:6 551:7 562:12 566:5 568:8 577:11 578:4 579:10 581:2 591:13 592:22 598:2,7,15 599:7 609:6 613:10 644:14 645:8 652:2 653:12,23 661: 13 662:6,8 668:24 669:9 678:9 681:17 682:1,19 683:3,5 687:7 717:20,23 718:3 733:19 740:19,20 743:8 745:25 746:3,22,25 747:10 748:5,19,24 749:14 750:5 758:24 759:24 760:1 761:23 763:4 777:10 778:6,14,20,22 779:1,11,14 783:23 784:12,20 Commission's 553:4 584:19 682: 12 718:25 722:22 776:1 777:3 commissioners 759:22 Commissions 742:21 778:3 commitment 636:9 733:16 committed 733:4,6,12 committee 538:8,11 common 554:10 555:9,15,16 556: 20 561:2,19,20,21 562:12,20,22 563:8 611:17 630:4 638:8,11,12 639:2,3 697:21 717:19,20,24 718: 3,8,15,23 719:16 746:5 747:5 759: 14 commonly 630:7 Communications 539:3 543:6 566:5 610:7 675:10 768:25 776:4 784:2 789:17 790:3 companies 547:11 727:2 729:24 732:17 755:17 company 541:21 558:17 560:13 595:5 597:23 648:11,19 658:23 659:17 662:2 668:14 686:7 688:21 690:13 728:12,12 737:8 755:12 756:6,6,11 757:25 759:1 768:25 770:4 781:10 company's 682:2 company-wide 729:6 comparable 559:23 580:25 601: 18 602:16 648:1 742:14,18 751:12 771:17 773:1,24 compared 606:23 791:5 comparing 724:6 comparison 646:20 647:2 708:10 comparisons 745:12 compel 589:21 compensation 733:13 compete 600:23 601:1,3 638:17</p>	<p>683:23 705:11 706:18 competing 629:6,19 706:21 707:8, 11 770:16,20 790:15 competition 598:25 609:12 684: 19 754:21 774:11,16 783:4 785:1 787:14,16,20,23 788:2,6 competitive 541:12 548:6,7 609: 13 632:5 678:18 706:1 754:14,18, 19 757:3 758:20 771:1 780:11 787: 11,22 competitor 652:23 competitors 542:17,22 545:5 546: 18,19 683:22 706:6,17 786:25 787: 14 complete 597:6 623:21 736:10 758:12 completely 608:21 702:18 717:6, 8 740:5 750:3 complex 767:13 compliance 592:1 730:11 731:18 732:3,14,15,17 compliant 733:9,16,17 745:20 complies 731:16 comply 593:8 635:17 731:11 732: 9 complying 544:25 component 569:2 641:17 643:13 components 717:18,19 composed 629:24 compound 590:21 comprised 542:21 625:15 computer 616:10 755:24 concentrate 690:16 concentrating 687:16 concept 609:16 656:10 678:15 concern 562:8 574:20 662:1,2,10 702:13,14 704:5 concerned 661:11 725:19 768:13 concerning 738:16 772:19 concerns 603:12 607:19 650:4 concisely 739:14 concluded 782:14 concludes 793:9 concluding 734:6,8 738:13 740: 15 conclusion 549:15 553:7,20,23 592:24 612:1 613:2 621:19 636:4 651:21 653:6 692:3 718:10 736:23 738:12 783:3 conclusions 652:1 concur 598:2 conditioned 623:25 conditions 787:19 confer 777:16 conference 645:10 793:17 confidential 557:14,15,20 562:3, 4,5 575:17 603:1 650:18 657:11 663:11 667:4 673:15,17 679:20 684:6 686:24 711:17 714:6 715:3 725:3 726:13 752:4 754:10 763:19, 25 confidentiality 603:12 607:19 confirm 578:8 confirming 667:13 772:18 conflicting 786:18 confused 563:4 612:19 719:22 confusion 548:10 751:6 conjunction 649:10 718:21 connect 621:16 connection 631:14 consider 615:18 637:7 678:3 705:</p>
--	--	---	---

8,17 consideration 552:24 553:2,2 661:1,16 668:23 677:8 762:25 considerations 704:24 705:7 considered 538:11 621:8 641:5 661:21 678:6,8 693:18 694:15 738: 15 considering 645:14 694:16 considers 695:1 705:2,4 consisted 648:23 consistent 581:5 584:7 589:11 656:16 663:1 730:3 745:21 748:7 758:24 763:13 consistently 748:5 consists 542:21 constitute 559:23 746:16 constrained 597:20 constrains 597:2 consumers 610:11 787:24 contain 562:2 contained 600:14 686:3 688:8 709:20 716:22 contemplating 694:18 contend 577:4 context 577:14 597:5,23 599:10 611:16 614:22,23 615:7,19 623:16 630:7 682:6,9 683:2 continuation 671:18 continue 536:16 553:8 581:24 666:5 788:1 continued 664:13 710:22 continues 598:25 continuing 666:6 670:3,5 757:14, 16 contracts 641:15,16 contrary 662:25 677:16 contrast 545:24 contributed 719:9,14 contribution 554:10 560:7,10,12 562:16,17,19,21,23 563:3,13,16 581:8 591:3 595:8,10 596:18 597: 2,19 598:7,18,21 607:4,8,25 608:3, 15 610:15 623:15 631:5,6 720:14 736:19 737:22,25 738:10 739:16 contributions 607:20,23,24 control 545:18,21,25 546:5,10 615:10 617:16,19 619:25 620:7 657:15,22 669:6 672:1 convenience 600:6 convenient 581:23 conversations 759:16 conversely 689:6 conversency 579:6 converting 783:11 784:4 copied 644:17 copies 624:3 649:20 779:2 copper 631:12 647:20 648:9,15 685:23 690:17 697:8,10,14,18 698: 3,9,11,14 copy 540:24,25 557:4 575:8,11 585:6,8 613:18 614:9 624:5 646: 17 665:12 669:11 681:16 772:11 781:25 Cornell 662:18 765:3,4,8,14,20 766:1,11,25 767:15,22 775:22 777: 13,17 779:13 783:20 784:18 788: 23 790:12 792:21,22 Cornell's 663:1 699:3,9,10 700: 14 corner 657:16 695:22 696:12 698: 3	Corporation 648:25 corporation's 728:4 corrected 687:3 728:21 correction 644:7 710:6 corrections 710:5,14 715:1 751: 16 766:12 correctly 721:1 736:5 737:14 782: 2 784:7,9 791:18 correspond 643:7 692:23 corresponding 586:6 604:24 corresponds 720:13 cost-price 745:12 costed 640:11 663:23,24 costing 659:9 685:17 686:2 couldn't 647:14 655:6 695:23 Council 539:4,10 counsel 538:21 541:1 557:4 613: 18 count 728:13 counting 620:3 counts 786:22 787:1 couple 566:8 682:8 729:23 740:14 785:20 course 551:24 621:3 644:18,21 660:4,10,21 728:12 Court 648:24 649:10 650:19,19 651:4 653:1,25 655:3,3 660:25 661:22 662:3,7 666:10,19 667:10 671:10 672:6 cover 548:25 554:10 562:19 606: 16 610:17 611:2 654:25 661:7 725: 8 covered 537:6 579:2 CPE 541:16 542:3,13 545:20 creation 584:20 cross 538:22 539:25 545:2 590:4 624:12 637:18 714:18,21 767:16, 20 785:20 786:12 crystal 749:2 cure 746:23 curious 717:10 current 556:24 559:6 564:19 566: 19 572:9 607:17 608:10 630:17 633:8 642:10,15,16,18 706:24 707: 20 716:9 792:4,8 currently 557:3 641:18 642:20 685:5 706:15,16 707:24 772:9 785: 2 curtail 599:3,14,17,19,22 600:6, 12 664:14 670:15 curtailed 600:8 curtailing 610:15 Custom 639:8 770:22 771:11 772: 2,7 customer 541:16 548:18 557:25 558:15 599:15 601:9,22,25,25 602: 1,10 606:13 641:3 642:3 647:20 648:12 675:15 685:19 686:8 688: 23 689:10,14 690:8,14,19,22 693:9, 11 695:11,13,15,19 699:17 702:6,9, 23 704:6,9 705:5,18 718:24 719: 17 720:16 767:12 770:4 771:4 773: 7,7 784:3 customers 548:18 598:4 599:3 600:22,25 602:6 609:24 610:6,9, 13 618:23 624:19 631:17 638:4,7 640:3 641:16,19 662:22 675:8,13 690:23 693:19 695:3,9 698:19 704: 11 705:2 720:11 769:3,7,18 771:4, 8,17 772:2 773:5 781:13 786:15 787:1	CUSTOMNET 616:4 618:22 619:10 620:5,8 622:16,24 623:9, 15 624:18,20 626:6 cut 714:15 <hr/> D <hr/> dash 537:25 538:4,7 date 536:3 564:14 577:25 578:3,5, 8 582:18 588:1,2 605:14 668:1 669:1 676:1,2,4 679:10 724:25 725:10,13 726:17,24 729:22 746:7 792:25 dated 658:13 725:9 dates 594:4 670:6 David 539:17 540:4 day 755:2 770:10 days 725:14 de-regulated 541:10 dealt 780:20 deaveraged 605:6 deaveraging 575:18 debated 690:25 December 775:2 776:10,15,17 777:19 779:20 780:3,3 783:23 decided 566:3,11 599:17,19,22 600:6 778:11,17 decision 552:10 574:25 634:13 662:3,4 682:9 741:16 742:10 743: 7 759:25 763:14 decisions 551:11 759:24 declared 739:19 decline 750:7,11 decrease 682:3 727:10 729:25 730:2 decreased 724:2,9 decreasing 727:20 dedicated 639:3 deemed 717:21 718:3 defect 746:23 defendant 649:1 651:17 define 541:6 548:2 552:21 defined 563:6 615:21 640:25 641: 2 653:3 782:5,8,15 defining 560:12 definitely 731:8 749:11 definition 540:18 577:18 616:22 738:1,4 739:15,20 definitions 544:21 defray 560:14 degree 703:7 delinking 781:16 Delores 657:6 demonstrate 730:11 731:15,18 745:13 746:9 demonstrated 569:7 719:16 732: 15 746:5,7,12,14,15 demonstration 732:3,18,20 733: 17 746:17 747:5 demux 698:13 Dennis 665:25 denominated 710:9 density 694:12 depends 617:10 747:16 deployment 544:9 deposed 657:2 deposition 650:2,4 656:25 657:4 658:2 665:13 deputy 759:13,16 deregulated 542:11 548:14,17,21 551:22 derive 559:25 derived 558:9 691:24	Describe 608:24 637:25 658:17 710:13 711:10 described 691:23 describes 616:8 618:19 describing 697:23 732:25 description 672:11 descriptions 714:11 design 697:21 designate 763:18 designated 555:24,25 designation 657:18,22 designed 638:3,17 778:1 788:14 desire 618:23 desires 786:18 desperately 757:17 despite 731:16 746:17,18 780:6 789:12 detail 545:13 614:7 732:7 783:14 determinant 597:22 determination 738:16 determinations 742:22 determinative 738:18 determine 554:17 582:8 598:16 687:21 689:24 690:13 742:25 744: 22 758:10 767:2 determined 746:22 determines 686:7 determining 596:18 751:22 develop 564:7 593:13 686:5 694:8 742:13 developed 593:12 604:25 641:6 694:15 706:3 developing 694:10 dial 620:17,23 733:13 differ 638:22 639:21 difference 564:4 580:17 595:5,9 602:18 603:9,10 608:2 631:3 640: 5,16 719:19 756:25 761:20,25 762: 2 differences 602:11,20 different 538:13 547:11,13 553:6, 9 558:4 567:9 580:18 602:6,8,9,10 607:13,16,20 626:3 638:23 639:1 648:8,17 652:20 661:17,17,25 662: 2 670:12 678:19,22 682:10 683:4 702:18 704:3,7,16,18 715:15 762: 8 763:12 773:5,17 786:9,17 differential 567:19 differently 648:10 743:23 745:18 difficult 601:13 671:24 781:10 difficulty 619:20 digit 638:15 digital 640:9 663:25 digits 622:5 663:20 673:8 digress 602:3 dilemma 786:13 diminishing 724:13 DIRECT 540:9 554:12,18 557:12 559:9,14,25 560:7,14 561:1 562: 18 563:8 564:8 569:5 571:2 576: 11,18 577:6,15 578:18,22 580:21 591:21 594:17 595:3,4 623:14 709: 14 717:6,18 718:2,8,15,22 719:16 731:22 733:22 735:23,24 736:14 738:5,6,9 741:17 744:2 746:4,7,15, 15 763:5,13 765:24 directed 682:20 716:13 direction 571:23 directly 541:10 563:5 600:23 601: 1,17 620:23 659:25 682:21 721:12 736:4 751:7 758:2 770:12
--	---	--	---

director 659:23 666:1
 directors 745:11,19
 directs 682:3
 disagree 569:1 583:3
 disagreed 662:20
 discount 632:16,18 642:8,10,12,
 13,20,22 643:24 722:1,1,5,8 767:9,
 11 774:5 781:2 782:5 783:1
 discounted 642:23 688:19
 discounts 641:20 648:6 656:11
 662:22 682:16 685:13 694:25 695:
 1 699:15 766:22 772:20 774:4 786:
 14,14,16
 discovery 561:23 589:19
 discuss 593:25 673:14 730:7 739:
 10
 discussed 551:24 579:20 605:17
 614:18 644:15 645:10 701:25 732:
 6
 discussing 755:20 758:7
 discussion 552:4 564:16 569:16
 594:3,8 619:7 630:15 645:19 653:
 8 665:9 692:7 739:2 745:3 762:19
 discussions 657:2
 dispose 584:7
 dispute 544:15 610:9 741:3 745:8
 disputes 616:24
 disregard 653:13
 Distant 668:7,7
 distinct 601:17 602:5 608:22
 distinction 640:7
 distinguish 562:15
 distinguished 541:19
 distress 789:22
 distribute 537:19 570:17 576:4
 581:19 588:8 595:19 596:9 618:8
 624:11 626:13,24 650:12 654:2
 657:9 665:6 667:2 692:8 734:23
 distributes 660:20
 distribution 586:15
 District 648:24,24 662:3 694:14
 697:22
 diversity 788:13
 divide 625:24 687:22
 divided 686:19 687:7
 division 542:14,17 544:23 545:4,8
 547:20 585:22 601:1,4 629:6,19
 668:4,9 673:3 755:7,9,11 756:7,10,
 17 757:2,6,10,20 759:2
 divisions 757:12
 divisor 687:13
 divulge 763:10
 docket 564:12 569:3 570:8,14 584:
 21 590:24 608:16 611:24 612:9
 614:2,2 623:9,13,16 643:5 644:23
 650:19 651:4 652:7,15 656:22 663:
 25 664:13 670:21 678:5,5 681:18
 690:5 691:7,11 700:2,2,10 736:2
 766:16 776:1,5 777:10 783:23 784:
 20
 docketed 784:21
 document 558:20 564:25 604:10
 605:15 644:11,13 645:23 646:3,9
 650:5,22 654:23 655:6 656:19 657:
 15,21 661:21 662:10,15,23 664:4,
 22 666:18 667:9,14,19 669:6 670:
 6,10,16 671:8,14,15,16,18,20,23,
 24 672:1,3,4,5,6,11 677:5 683:11
 703:4 724:25 777:3,9 783:22 784:
 12
 documented 660:16

documents 539:5 649:13,20 651:
 4 654:14 655:2,21 656:14,15,16,20,
 24 662:6,16,24 664:6,15,23 665:10
 671:4 778:17 786:11 792:17
 doing 576:14 606:9 752:3 764:15
 787:7
 dollar 603:11,15,16 736:22 787:
 12
 dollars 736:16,20 738:22
 domain 781:4
 Don 709:6,10
 done 566:1 570:21 579:15 581:12
 608:13 628:5 676:19 686:18 687:
 20 698:21 699:2,6,20 730:17 733:
 20 735:4 738:8 767:8,12
 door 698:15
 doors 697:7
 double 643:6 754:17 758:20 762:5,
 13,15
 doubt 741:2
 down 586:2 596:24 599:1 688:25
 722:25 728:8 734:1 770:1 784:25
 downtown 641:4 695:7 705:16
 707:14
 dozens 655:2
 draft 538:2,12
 drafters 544:6
 dramatic 714:14
 dramatically 791:4
 draw 669:13 723:22
 drive 611:7
 driven 613:7 622:17 652:24 693:
 20
 driver 597:22
 drives 598:23
 driving 661:15
 drop 599:9
 dropped 791:4,24
 DS0 698:8
 DS0s 697:15
 DS1 686:19 687:8,9,15 689:11,14
 693:13
 DS1s 697:16
 duly 709:11 765:21
 dumb 545:14 546:6
 during 581:13 624:5 629:22 729:
 22 744:3 762:8 777:14,18 778:4
 779:14
 duty 716:14,16
 dynamic 714:16

E

E-U-C-L 555:23 556:18
 each 555:6 558:18 559:20 586:5
 587:20 601:4 606:19 629:4 638:14
 639:3 660:3,11 691:25 728:2,6,8
 729:15,21 730:1 733:9 755:25 761:
 20
 earlier 537:3 538:2 548:13 569:24
 579:21 585:14 587:19 590:23,24
 593:6,9 605:17 619:25 620:6 630:
 23 645:11 654:21 676:13 677:7
 678:5 685:21 688:16 690:4 730:22
 732:5 755:1 772:24 786:9,12 789:
 20
 early 594:9 627:14 665:19 781:20
 789:17
 easier 539:4 711:7
 easy 781:15
 economic 748:4,7,13 749:4 750:2
 751:4 781:17
 economically 693:5 694:19

economies 690:18,23 693:22
 economist 722:11
 effect 560:7 572:20,20,23 575:4
 583:9 630:4 631:21 653:18 682:3
 699:6,21 702:5 717:11,13 754:12
 767:2,10
 effective 781:6 792:4
 effectively 581:7 653:13 706:18
 effects 592:8 767:7
 efficiencies 690:23
 efficient 648:11,20 686:8,9 688:
 22 690:14,15 694:19 695:18 698:
 18,21
 either 558:16 589:23 628:13 633:
 16 636:7,7 683:9 711:1 721:4,13
 736:16 739:7 742:7 754:12 770:20
 771:9,19
 elaborate 549:23
 elaboration 579:12
 elect 610:9
 electronics 697:10
 element 545:2 604:23,24 617:15,
 16 651:14 652:6,14 664:1 676:15
 688:13 718:23 747:19
 element/platform 706:12
 elements 568:24 579:23 584:20
 615:10 630:8,11,11 651:11 707:9
 731:24 750:17 751:12 783:5,12
 eliminate 682:20
 eliminated 556:6,11
 eliminating 699:4
 elimination 788:4
 elsewhere 653:11
 employed 546:7 582:8
 employee 673:3 788:15
 employees 660:11
 end 546:22 547:8,21 548:3,4,25
 555:9,15,16 556:20 592:5 614:18
 616:11 641:16 697:11 702:9 706:4
 714:5 718:22 719:10,11 720:14
 728:6 745:10 763:25 764:1 770:4,
 5,8,13 778:18
 ended 771:16 778:10
 ending 669:6
 ends 590:13 726:13 788:20
 engineer 696:25 699:1
 enough 586:21 741:24 767:10 776:
 6
 ensure 609:2 778:17
 enter 675:7 697:2
 entered 543:7,7 645:3 786:11
 enters 609:12
 entire 538:9 551:5 560:5 569:3,3
 570:11 597:8 619:15 635:23 671:
 20 682:24 701:22 729:20 740:25
 741:6 744:13
 entirely 547:12 568:7 600:12 601:
 16 602:6,8 634:1 678:19
 entirety 587:6
 entities 548:21 629:16 675:11 750:
 19 756:3
 entitled 721:8 723:1
 entity 541:11 548:14,14,17,22 636:
 2,2,18 675:10 679:1 718:8,16
 entrants 787:25 788:3,6
 entries 711:10
 entry 666:8 675:19 756:14 788:9
 environment 678:20
 equal 557:5
 equals 761:11,11
 equating 559:13 741:23

equipment 541:16 687:16,17
 equivalent 567:5,23 568:6 578:15,
 23 579:24 635:7,13 687:10 689:18
 692:1 769:8
 essence 702:14
 essentially 546:4 558:3 566:2 569:
 21 590:3 598:12 600:16 601:5,11,
 13 617:10
 establish 607:19 623:13 655:18
 733:9 747:9
 established 544:22 577:24 601:
 15 607:1 616:1 676:13 689:22 718:
 20 719:2 730:22 793:15,17
 establishes 598:20
 establishing 704:23 717:22
 estimate 554:22 555:1 575:3
 et 766:20,23 773:7
 EUCL 555:9,21 556:18,24 557:2
 558:3,7,7,17 587:18,22 608:10
 629:13 762:4,13
 EUCL/CALC 761:4
 evaluating 738:19
 EVD 660:15
 even 653:18 664:4,8 697:6 722:10
 727:6 729:21 751:19 770:23,24
 773:15 787:2
 event 636:7 652:22 702:7
 everybody 705:13
 everybody's 766:14
 everyone 663:6
 evidence 566:18 664:17 676:23
 775:10,12
 evidentiary 654:9
 evolved 583:8
 ex 759:16
 exact 584:16 607:18 679:10 700:
 13
 exactly 609:10 689:25 690:2 692:
 23 714:9,10 746:8 750:22 758:25
 788:21
 examination 538:22 540:9 590:4
 628:22 635:3 637:18 701:10 708:6
 709:14 714:21 760:10 764:5 765:
 24 767:20 785:18 789:3 790:10
 791:11
 examined 540:6 689:23 709:12
 765:22
 example 551:10 561:1 563:15 580:
 2 608:23 615:12,14 642:25 644:8
 645:21 650:1,2 663:3 677:13 689:
 9,13 694:24 695:10,15 696:14 702:
 1,9,15,23 703:13 704:5,11 705:15
 707:14
 examples 633:14
 exceeds 708:13
 Excellent 537:10
 except 663:25 778:2
 exception 695:17
 excerpts 681:12
 excess 708:9 738:21 760:17
 exchange 541:21,22 544:23 592:6
 600:2 675:16 693:6 705:14 706:23
 758:2
 exchanged 600:16 758:3
 exclusive 605:10 606:1
 Excuse 540:23 548:2 555:22 556:
 25 559:18 561:25 563:18 582:16
 583:21,22 584:11 589:13 600:22
 606:8 612:12 619:1 623:19 624:17
 625:17 626:2 638:11 640:13 654:
 20 671:15 686:22 731:7 747:23

761:11 772:13
 excused 708:20 764:22,25 765:2
 792:22
 exhibits 539:23 586:18 590:25
 627:15 666:8,21 684:11 709:16,23
 710:11 711:1 746:21 766:2,4,6
 786:12
 exist 559:22 758:14
 existed 633:8 664:11 789:17,19
 existing 552:15 633:12 698:25
 737:24
 exists 642:16 664:12 670:19 684:
 24 705:10 706:2 758:10
 expanded 552:19 748:9
 expect 786:1,6
 expected 644:22
 expects 654:15
 experience 657:21 696:25 697:12
 698:17 730:3
 expert 594:20 617:23
 explain 562:14 580:12 705:12
 706:9,10 710:7 711:5 720:5 736:
 19
 explained 723:12,14 742:12
 explaining 723:25
 explains 596:17
 explanation 576:10 694:1
 explanations 589:11
 explicit 745:2 748:12
 explicitly 570:9 594:14 731:14
 736:15 738:11 745:23 747:19 755:
 23
 expressed 569:8 579:20 702:13
 778:14
 extended 587:10
 extent 543:21 553:7 578:25 579:
 16 581:10,12 591:12 592:17 593:3,
 10 594:20 597:7,8 617:5 621:19
 632:5 652:16 661:20 670:10 691:9
 694:4 696:22,23 759:11
 extremely 741:17

F

face 757:8,9
 faced 786:13
 facilities 633:14 647:12 675:8
 692:2 693:5 697:16 706:19 721:7
 722:17 723:2,4,5,21 768:11 784:5
 facility 675:16 697:8,9,10 698:8,9,
 9,11
 fact 544:15 548:13 556:4 566:3,12
 567:17,25 572:16,18 583:8 596:4
 600:20 612:11 634:12 662:24 664:
 9 670:11 671:23 679:2 689:12 700:
 11 702:23 703:19 710:20 724:11
 728:10 734:17 736:1,14 737:24
 738:7,11 739:21,22,23 749:17 750:
 3 755:20 757:11,11 769:11 778:8
 780:6 787:25 791:14
 factor 679:6 691:21
 factors 598:17
 facts 676:22 677:13,15
 fails 734:5 740:5,15
 fair 542:24 543:11 586:21 587:3
 601:3 609:5 641:23 647:1,6 704:8,
 9 741:24 751:17,21,25 768:15 776:
 6
 fairly 561:11 638:3 685:14 697:12
 714:14 716:5
 fairness 782:10
 falls 763:16
 familiar 542:25 601:19 622:13

639:18 677:25 681:14 750:9
 familiarity 622:4,20 651:11 675:
 3,5
 family 639:7,11
 far 725:19 738:21 745:23 768:13
 790:3
 fast 692:16 718:13
 fax 676:1,1
 FCC 550:22 551:6,25 552:10 555:
 25 556:1 558:12 564:7 584:21 611:
 17 613:6,16,16 614:2 653:14 703:
 8 723:1 732:15 733:4,7,16 734:18
 735:22,25 736:2,8,23 737:1,2,12
 738:8 739:19 740:5,11,25 741:6
 742:1,6,25 747:13 748:5,25 749:5,
 21 750:10 751:6 755:14,25 759:21
 762:9
 FCC's 551:10 730:12 731:12 732:
 10 734:2 738:4,25 741:15 745:1
 fear 775:7
 feasible 617:13,21,22 698:13
 feature 615:19 620:5 640:6 647:9
 731:22 746:13 771:11
 features 615:3,8,9 638:16,24,25
 639:8 640:1,15 647:8 738:18 741:
 16 742:13 769:8,11 771:6,10,20,21,
 22 772:9 773:25
 Federal 543:1,6 544:2 547:6 555:
 8,21 566:5 621:11,12 635:16 650:
 18,19 651:4 679:9 704:8 723:7,10,
 13,16,18 759:2,8 762:8
 federally 606:11 629:12
 feel 589:20 617:2 655:9 676:20
 felt 635:6
 few 546:10 610:21 701:14 740:8,
 10
 fewer 689:7
 fiber 647:20 648:13 689:11
 figure 557:5 686:20 788:10
 figures 686:23 688:8 727:21
 file 573:2 614:16 615:2 623:8,11
 682:3 740:20 784:13 793:9
 filed 564:13,20 569:2 571:18 573:
 18 575:18 582:24 584:6 589:9,21
 591:16 592:1 594:10 645:7,9 715:
 9,16,20 716:21,24,25 733:17 783:
 22
 files 671:25 777:4
 filing 554:5 564:14 583:10,12 591:
 24,25 592:4,8 604:4 608:7 717:6,7
 732:19 777:10
 filings 733:2
 fill 691:21 692:1 693:10,15,24
 final 592:11
 find 549:20 570:19 738:16 743:15
 751:2
 fine 564:21 581:25 603:13 607:9
 628:13 672:17
 finish 624:12 691:3 747:24 780:25
 finished 550:25 560:17,18 706:13
 firm 563:7 571:17 577:15 608:17
 652:24 655:16 656:1 665:21 695:
 23
 firms 787:11,21 788:9
 first 537:20 540:21 558:12 559:9
 562:15 568:4 570:8,12 578:18 587:
 15 591:15 593:23 594:3,8 603:2
 605:18 606:17 614:15 625:18 637:
 25 643:1,21 660:2 661:6 669:14
 676:3 679:18 686:18 701:17 703:3
 709:11 711:9 728:1,2 742:9 765:

21 776:7 783:25
 five 586:3 610:1,3 624:8 662:16,17
 765:3 770:9
 flat 541:23 546:3,4 548:15 555:18
 563:10 568:11 569:5,22,25 570:1
 577:12 580:10 581:6 601:18 602:
 17 603:3,7,16 604:20,21 605:4,6,7,
 20 606:4,16,23,24 607:13,14,17,25
 608:1 612:8 631:9,10 702:17,17,
 22 760:19,23
 Fleming's 650:2 656:25 657:4
 floor 559:19,20,21 561:22,24 591:
 24 603:2,6,9 606:9,17,23,24 612:
 13,24 613:13 629:23,24 630:4 685:
 18 687:5,6,21,23 688:13 691:16
 694:2 696:13,14 717:11,16 718:2,
 6 788:19
 floors 562:10 710:19
 flows 711:8
 focus 551:17 566:18 606:21 614:
 14 664:1
 focusing 566:6 596:23 599:11 640:
 9 762:10
 follow 567:13 583:2 589:7 611:22
 619:15 637:9,10 653:23 708:18
 735:20 764:2 788:25 790:8 791:8
 792:14
 followed 565:24 566:13 612:23
 672:6 710:9
 following 566:4,17 691:23
 follows 540:7 558:15 709:12 765:
 22
 Footnote 616:11 740:11 762:21
 foresee 633:11
 forgot 771:15
 forgotten 538:25
 form 561:18 647:17 675:12,16,25
 788:9
 formatted 743:22
 former 789:23
 formerly 728:4
 forth 580:6 583:4 611:22 612:24
 710:24 711:4 714:11 720:21 733:7
 746:21 747:13
 forward 648:20 686:9 695:19 705:
 5 749:3 784:6
 found 556:5 574:8 653:2 666:12
 682:16 742:1 744:16,21 745:5 757:
 20
 foundation 565:25 654:14,16 655:
 19 662:14 663:22 676:25 777:6
 four 638:14 662:17 724:3,17 733:
 15 745:17 788:16,18
 four-part 745:1
 fourth 701:18
 frame 594:13,15 625:2,3 659:4,22
 676:17 677:5 678:18,18,19 697:3,
 13 733:2
 frank 558:10 573:6 622:11 623:3
 658:22 659:6,7
 fraud 620:20 621:8
 fraudulent 620:12
 free 617:2 788:10
 FRIDAY 536:1
 front 540:24 550:14,16 555:5 573:
 20,24 574:2 575:15 602:15 604:19
 643:12 645:25 646:5,9 649:18 662:
 5,6 677:3 682:1 683:3,4 701:15
 702:25 703:3 721:12 725:22 730:
 18 734:20 735:8 742:3 743:13,16
 750:4 766:1 775:23

full 653:14 682:10 732:18 760:1
 762:5 783:25
 fully 727:19 763:13
 function 545:22 615:10 619:18
 622:2,5 720:10
 functionalities 614:17
 functionality 617:16 619:10,13
 620:15 639:24 705:22
 functionally 630:24 631:9,14
 functions 545:18,21,25 546:5 617:
 19 620:1 668:10 720:6 738:18 742:
 13
 fund 719:15,20 721:9,13 723:22
 761:18 762:16
 fundamental 572:19 597:21 602:
 20 705:9
 funding 718:21 721:9,12,18 723:2
 further 539:24 599:1 634:24 637:
 8 708:3 710:2 734:1 760:6 764:18
 785:13 792:13 793:10

G

gain 758:19
 gaining 727:6
 gap 721:9,10
 Gary 650:2
 gave 736:7
 general 543:2,3,14 544:1,4 551:9
 554:6 594:15 599:11 616:21 640:
 11 658:18 675:5 676:17 689:5 755:
 14 773:13
 generally 575:5 579:14 609:21
 614:6 638:1,2 639:20 675:9 699:
 14 745:12 756:21
 generates 555:7
 generic 664:6
 gentleman 658:21
 gets 693:20
 getting 636:13 691:3 700:13 739:
 17
 give 543:22 567:2 578:7 583:24
 596:20 603:13 604:6 644:8 645:21,
 25 664:21,21 671:13 679:12 681:
 10 691:13 699:15 704:25 725:4,5,
 6 744:19 746:8 772:11 779:7 781:
 25
 given 574:20 611:5 622:25 670:11
 727:25 773:3 775:20 783:20 785:2
 glad 750:22
 goals 543:18 544:2
 got 585:10 604:23 617:18 692:17
 693:24 726:24
 gotten 572:12
 governed 617:7
 government 669:19,21
 governments 638:6
 grade 687:10,17 691:25
 great 783:14
 greater 735:24 736:13,17 738:6,
 10,14 775:6
 grew 780:4
 ground 696:13,19
 grounds 565:18 651:20 661:6
 Group 540:15 605:7,9,9 606:4,5,6,
 19,20,21 643:1 646:16,17,19,21,24,
 25,25 659:13,22 669:16,24 710:9
 724:23 760:16,19,23 761:5,20 773:
 5 792:1
 groups 646:4,8,11 718:6
 grow 598:25
 growth 724:7
 guess 537:15 614:23,24,25 615:22

631:24 663:10 687:23 691:3 711:
15 716:20 725:4 768:23
guessing 669:3
guideline 652:4
guidelines 616:11 630:10

H

hac 793:6
half 625:9 647:4 772:25 773:8,11,
11
hand 586:19 659:20,20 709:2 743:
19 765:10
handed 537:22 583:20 734:24
handy 585:20
hang 687:2
happened 780:8,10 785:21 786:7
happens 636:21 702:19 792:9
happy 628:11 672:14 684:14
hard 700:8 770:1
Harlow's 566:15 571:17 629:22
661:20
harm 652:23
harmed 652:24
hate 615:21
Hatzenbuehler 659:6,7
hazard 615:22
HB 538:3
head 708:12 722:10 727:14 791:
19
headed 559:14
heading 561:20 744:6
hear 588:5 591:24 661:19 673:9
683:8 684:20,21
heard 536:23 553:11 560:16,19
672:19 769:2 772:2,4,23 775:5
789:20
hearing 536:4 571:25 636:11 654:
21 710:2 744:3 792:17
Hearings 585:22
heavily 608:19 770:10
held 608:20 619:7 645:19 692:7
help 725:14 747:25
Hema 672:24
Hemachandra 672:23,25 673:1,2
herein 572:6
hereinafter 584:22
Hernachandra 672:22
hesitation 773:16
high 599:3,8,13 609:3 610:3,15
631:20 632:1 641:4 685:15 687:9
689:11 694:13 695:7 696:4 697:23
705:16 767:10 786:14
higher 558:8,10 559:20 564:2,3,5
567:17,22,24 580:19 607:24 608:1
610:17 641:16 642:13 704:1 786:8
791:3 792:3,11
highlighted 558:24
Hilderbrand 665:24 666:1
history 683:2,4
hit 693:15
hobble 785:4 786:19
hobbling 785:3,22 788:9 789:12
hold 665:5
holding 675:25 792:24
home 620:21 633:20 634:7
honest 556:19 585:6 620:4
hope 588:15 612:14 616:23 734:
15
hoped 662:15
hopefully 619:12
hour 624:4,6 627:24,25 718:13
793:11

House 537:24 538:9
however 540:16 559:19 605:23
621:25 666:6 684:25 685:2 686:7
732:8 740:5 784:4
Hruska 665:13,17,18,20
hundred 625:10 642:25 681:12
690:19,20 693:14,23 695:2 757:18
766:22
hundreds 655:2
hypothetical 621:2 696:5,7,8,10,
10 698:2
hypothetically 599:16 653:20
690:8 695:21

I

I's 622:9
ICB 643:13,17,25
iceberg 662:13
identical 546:19 580:3,5 600:16
601:5,11,13 630:22 631:10,15
identification 665:10 728:7
identified 554:19 560:25 570:20
728:2 790:15
identifies 586:8
identify 570:22 576:6 582:4 583:
18 586:24 588:11 595:22 596:10
602:11 618:15 624:14 626:16 627:
2 650:14 668:2 672:21 673:1 690:
18 735:24
identifying 655:1
II 622:4
ILEC 782:13
ILECs 781:21
illustrative 646:6
impact 587:10 679:5,7 723:23
790:23
impacts 575:21 591:1,19
impeach 664:18
implement 699:25 700:14 755:18
implemented 791:1
implementing 661:14
implications 631:20 723:18
important 621:25 622:2 705:25
impose 553:10
imposed 670:19
impoverished 610:12
imputation 604:11
imputed 561:24 603:2,6 606:17,
23,24 612:12,15,24 613:13 710:19
717:11
Inc 784:2
include 538:13 552:19 554:9 562:
11,21 577:5 591:3 598:18 605:22
647:7 669:24 683:18 707:5 737:25
739:1,6 751:23 754:13 784:24
included 561:2,5,9,13 565:15 571:
23 572:6 606:8,8 617:14 620:9
647:8 743:2 750:23
includes 569:4 630:4 640:14 772:
8
including 551:1 555:17 563:7,7
604:14 638:24 684:1 685:4
income 610:12
incomplete 671:21 736:7,9,10,12
inconsistent 544:12
incorporate 541:11 592:20
incorporated 591:13 592:7,18
incorporates 639:23
increase 611:2,6 729:24
increased 682:2 724:16 726:20
increases 690:22 714:14
increasingly 598:24 705:3,3

increment 693:15
incremental 554:17 595:2
increments 689:18 690:3 693:14
incumbent 750:13
Indeed 607:23 632:15 634:6 660:
25 682:18 717:23 726:19 729:14
734:11,13 735:18 755:20 758:4,5
760:2 763:1 767:12 778:13 789:16
independent 579:11
indicate 728:3
indicated 561:23 654:15 706:14
710:18 785:20
indicates 576:17 666:9 728:10
776:10
indication 786:24
indirectly 758:2
individual 643:17,25 644:5
industry 543:13 727:18
infinite 700:4
information 571:8 585:7 685:6
687:25 706:22 710:21,22 711:8
714:10 716:1,22 728:11,18,20 729:
16 731:15,22,24 758:15 763:10
767:2 789:13
infrastructure 788:10
inherent 545:21 546:11 615:11
617:5,8 619:13 620:2,5
inherently 619:19
initially 643:22 719:2 742:25 760:
24 786:7
injury 652:11
inopportune 628:17
input 593:19 791:3
inquire 597:12
inquiry 755:25
insert 710:12
inserting 548:19
installer 696:25 697:13
instance 620:15 702:2
instances 698:21 770:16
instead 615:1 759:25
integrated 640:6
intend 547:9 662:16,24 675:15
intended 616:22 620:12 656:10
662:21,25
intending 597:7 779:6
intent 552:16 597:18 620:14 778:
14
intercom 638:15
interconnection 633:6 635:21
636:1,19 722:5 748:10
interest 676:10,20 678:1,3,11,14
778:12
interests 767:24 768:14,21
interexchange 555:10
interface 697:19
interject 604:2
internally 660:20
interpretation 564:4 577:1 615:
21 737:22
interpreted 613:6
interrupt 553:8
interrupting 689:16
interstate 614:18 703:15,17,18,23
704:13
intervening 592:4
intervenor 540:13
intimated 688:16
intrastate 614:17 615:2 703:15,
20,25 704:12,14 719:14 723:10
733:9 761:18 762:3

introduce 655:21 741:25
introduced 641:11 670:8 676:14
677:14 716:6,7
introducing 682:24
introduction 668:19,25
investigation 743:1
investment 563:7
investments 787:22
involve 631:11,13,13 648:13,13,14,
15
involved 593:22 685:3 727:18 743:
6
involves 702:5
involving 776:3
ISDN 639:24 640:1,4,8 663:25
isn't 562:2 622:1,15 688:19 689:8,
18,20 694:2 698:9 724:15 729:9
734:16 736:9,10,12 740:24 742:2,
21 743:12 758:23 759:1 762:2 780:
19 787:17
issue 547:5 555:3,4 563:11 567:9
622:13 628:15,25 637:24 652:16,
25 656:22,22 663:21 700:9 701:24
733:19 758:8 762:13 790:19
issued 611:17 661:1 662:3,4
issues 540:17 610:11 617:24 639:
17 652:19,21 660:13,13 661:25
662:9 664:24 673:5,5 696:20 744:
2 756:17 772:19 774:3
issuing 655:3 661:22
Item 666:12,14 667:7,22 671:5,14
itself 546:1,5 551:19 588:21 604:
17,24 619:14 620:5 633:3,4 640:
19,19 652:2 657:1 672:4 695:13
748:3 782:12
IV 718:10,15

J

January 573:3
Jim 665:24 666:1
John 658:15
joint 561:18 562:20,21 563:8 678:
7
JONES 692:17
Judette 672:21
Judge 709:3 765:11
Judi 659:20,20
July 556:11 582:19 588:2 658:13,
16 659:3 793:19
JUNE 536:1 571:17 578:3,9,24
625:4,5 668:2 715:18 730:23 789:
17,19 793:18
jurisdictions 614:18 704:8 763:
12
justification 569:17
justify 566:2,12 579:4

K

Karen 775:25
keep 609:1,14 628:14 685:14 787:
7
keeping 786:11
Kelley 658:16
kept 609:7
kicks 642:12
kind 541:3 543:22 561:8 619:17
660:11 662:13 685:22 718:13 784:
25 788:17
kinds 660:2
Knoebel 659:11,12
knowledge 634:17,20 764:8 778:8
known 545:9 587:18 589:13 595:3

616:4 657:21 658:21 728:4 770:21
knows 605:23 636:5 705:13

L

labeled 710:6,8
labor 733:8
lacks 670:11
laid 565:25 663:22 676:25 783:16
language 538:13 549:6 555:5 584:16 616:14 663:17,18 741:15
large 598:23 612:4 638:3,17 648:12,15 659:15 662:22 663:19 669:21 685:23 688:17,25 690:17 694:18 695:2,3,6,11,16 696:2,9,10,17 697:2,2,5,13 705:3,3,11,15 706:1 767:13 773:7 786:15
larger 648:7 693:21 708:14
Larry 659:12
last 555:10 556:12 587:7 600:13 635:9 636:12 661:19 663:20 670:25 672:2,4 673:7 690:11 726:21 727:12 746:21 747:4 748:6 764:7 773:21,21 787:16 790:18
late 594:9 641:10 749:9 793:12
later 564:20 604:13 611:21 630:9 664:6 740:10,14
latest 716:3
law 547:6,6 571:17 621:11,12 655:16 670:15 695:23 709:3 722:14 723:21 765:11
lawyer 543:21 593:1 612:3 651:24 768:2 781:17
lawyers 768:1,8 782:18
lay 621:21,22 636:5,6 652:18 732:19
laying 654:13 662:14
leads 662:8
learned 536:4
least 606:16 616:16 620:11 637:3 641:7,23 664:9 682:19 688:22 693:18 705:4 715:13 728:23 746:25 749:1 758:9 789:17,24
leaving 636:12
LEC 542:2 547:19 559:24 616:7 750:16
LECs 614:16 615:1 742:19 750:13 760:3
left 559:17 563:6 619:9 668:13
legal 543:22 549:15 553:7,20,23 592:24 612:1 613:2 615:20 621:15,19 636:4 651:21 652:1,16,17 670:12 781:16 782:19 783:2
legally 782:22
Legg 657:6
lengthy 589:7 671:7 762:19
less 608:14 623:2 625:15 628:11,18 641:25 647:3 773:14,24 774:2,6 781:6 788:5,8
letter 603:25 605:8
level 568:9 596:18 597:25 598:3,18,21 631:5,6 660:16 673:3 685:15 691:8 703:25 717:19 721:8 736:21 746:21 747:5,21 748:3 767:10 773:24
levels 609:2 751:4,9,10
light 760:14
lightly 734:14
likely 600:10 611:7 641:11 659:23 702:9 707:14 769:3 770:19 771:1,19 788:5,7
likewise 667:4
line-side 574:12 575:22 615:18,23

616:25 627:7,17
linking 781:15
list 645:12 671:4 769:13
listed 593:20 643:8 656:15,20 659:18 671:5,14
literally 774:20
little 545:13 567:9,11 573:9 602:3 607:15 647:3,3 662:14 734:1 770:6 773:10
live 565:10
lives 634:2
lo 676:18
loading 560:4,19,22 561:3,6,9,10 562:16 564:9 569:18 570:3 576:11 717:20 746:8
loadings 560:23 738:17,19 742:12,18 745:14
local 541:20,22 551:1,7,18 600:2 610:22,23 675:16 693:5 718:17
located 632:12 673:4
locational 641:14 664:12 670:17 676:18
locations 663:19 685:17,21 687:6 688:14,25 689:1 694:17 705:3 773:7,7
long 554:16 595:2 596:25 597:17 608:20 628:9 666:5 755:2 787:8,17,18,20,23 788:2,6,8 790:24 792:6
long-term 786:25 790:20
longer 555:14 581:24 599:18 665:20 672:11
look 556:4 561:22 564:25 581:22 583:23 600:15 606:22 614:5 625:5 657:15 658:10 660:17 701:17,22 703:3 711:9 728:1 734:19 738:20 741:4 751:1,7,17 760:15 773:19 793:5
looked 580:24,25 618:12 727:16 761:22 769:13 782:10
looking 558:11,12 569:20 580:7 606:10,12 607:18 626:4 648:21 675:24 686:10 688:1 695:19 705:5 716:12 727:13 745:18 749:4
looks 559:9 628:1 648:11 658:1 666:14
loop 555:17,19 602:20 631:12,12 640:19 647:12,17 685:23 686:17 687:8 688:13
looped 687:6 697:9
loops 648:9 697:14,18 698:3,14 707:12,15,16,16,21 708:9
lose 787:6,12 788:1
losing 727:6 787:9 788:1 789:6
loss 725:7
lost 729:21 775:7
lot 552:4 677:13,15 744:2 780:18 789:12
love 669:10
low 608:20 609:2,7 610:12 675:19 694:12 702:19 703:23 741:17,20 742:7 786:14
lower 612:8 642:3 657:15 693:21 703:19 766:20
lowest 689:20
lunch 624:3,5,12 627:24,25 628:12 637:12

M

ma'am 539:21
made 572:5 577:3,21,24 623:21 630:3 653:6 682:10 732:12 737:23

739:20 742:22 746:16 751:16 758:18,19,21 766:8 791:15
magnitude 580:15
mail 781:7,9,9,12 784:19,21 785:5
maintained 567:21
major 748:11
majority 546:8
manage 665:22
managed 665:25 668:17
management 668:10
manager 576:24 622:12 639:16 641:9,13 659:5,12 665:18 668:4,9,15 689:22,23
managers 657:7
mandate 635:16
mandated 679:1
manhole 697:25 698:14
manner 694:16
manners 618:6
many 538:12 545:10 609:8 624:23 639:15 641:23 642:3 648:15,15 685:5 688:25 750:20 769:8 770:15 771:5 785:2 787:6 789:10
March 603:21 605:7 608:6 644:14 645:7,24 773:3
margin 563:3
mark 559:24 570:16 586:16,18 650:11 718:5 719:2 720:6,8,20 721:20 734:22 741:2 760:13 761:17,23 762:1,2 779:6 780:11
marked 585:4,6,8 586:22 673:16 730:16,19 734:25 766:2 775:10 783:21
market 597:1,20,21 598:4,8,20,23 651:17,18 652:24 653:2,3,7,9 656:6 659:5,8,16 662:2,19 675:7,20 705:8 780:11 782:20 787:17,18,21,25
marketing 561:12 659:5,22
marketplace 598:1 609:13 781:5,18 782:20
markets 653:9 782:18,18
marking 775:21
markup 559:25 560:4 562:17 563:3,9 576:18,22 577:6,9,10,10,14,18 580:20 582:8 595:7 606:22,23 607:1,2 623:14 763:5,8
match 656:8,13 771:8,22
matches 693:15
material 650:18
materials 584:6 589:10 649:9
math 722:10
mathematical 721:13
mathematically 700:24
matrix 699:24
matter 537:13 671:23 744:14 782:22
McGuane 593:20
mean 548:3 553:2 576:21,25 577:9 599:7 608:24 611:11 614:10 657:20 671:23 698:24 700:17,21 723:16 747:16,17 748:2 755:13,15 768:19 778:19 779:17 785:9
meaning 788:20
means 544:22 552:12 589:12 614:22 647:19,21,21 648:12,20 685:20 691:22 706:17,21 707:8
meant 577:1 620:19 630:12 651:2 739:19 768:16
meantime 611:21
measure 758:10,11,12 785:1 787:

10
measured 568:9,10 569:5 581:3,4,6 631:9,10
mechanism 670:18 676:19 700:12 703:24 720:20,21
medium 769:4,21 770:15
meet 610:7,10
meets 552:25 553:13 636:18
member 728:2,8 729:15,16,21,23 733:5 756:18 757:1
members 724:16,18 726:20,25 727:6 729:1,11
membership 542:21 727:1 729:16,19
memorandum 658:12,15 660:1,2,8,11,18 668:1 676:4 734:2 736:2 793:17
mention 557:15 565:11 568:20 569:9,12,14 592:12 734:6 740:5,15
mentioned 570:9,13 591:15,16,23 592:3 618:22 641:8 678:20 706:6
mere 743:3
merely 553:2 666:19 736:9,10,10,12 756:7
merged 675:10,11
methodologies 611:22
methodology 552:21 554:3,17 564:6 565:25 566:4,14 576:11 582:8 583:4 635:17 691:23 710:25 711:6 714:10 744:22
Metronet 648:25 650:19 651:8 652:20 653:1,24 655:16 656:14 660:25 665:14 667:9
Metronet's 653:20
mid-1980s 641:12,14
middle 703:5 744:5,15
might 548:3 561:11 617:16 620:16 627:25 631:22 687:16 695:8 697:8 704:10 716:1 770:11
migrate 675:15
millennium 546:12
million 625:9,12 682:4 700:3,9
mind 543:16 561:12 572:14 575:6 591:9 592:13 597:14 600:18 615:16 623:11 694:21 762:22 765:4 773:17
mindful 602:25
Mine 743:21 744:1 787:11
mine's 745:18
minimize 701:20 761:24
minimizing 762:1
Minnesota 661:9,12 766:15
minute 596:5 619:5 645:1 725:1 743:15 765:3
minutes 624:8 628:11,16 701:7
mirror 581:3 703:6
mischaracterizes 649:22
misleading 734:12 736:6,13 737:2,9,11 738:24,24 739:9 740:18,19,21 741:13
missed 635:9 636:12 660:5
missing 619:4 766:14
misunderstanding 720:1
misunderstood 547:15
modification 603:22
modified 583:10 593:11 605:7 645:9
moment 537:17 565:1 587:7 596:20 601:10 625:5 634:22 640:8 645:17 646:2 658:5 671:12 679:12 681:

10 691:13 692:5,24 725:5,5,6,6,11
777:16
money 757:21 786:22 787:6,9 788:
1,1 789:6,10
monopolization 651:16
month 559:7 622:24 645:11 719:3
720:17 736:17,21,22 738:11,14,22,
22 739:8 772:10
monthly 737:4 763:15 766:18
Moreover 662:2
morning 540:11,12 595:12
most 579:23 600:21,22,24 604:21
608:19 648:11,20 686:8,9 688:22
690:13,15 696:11 757:11 769:3
770:19 781:3
motion 589:21 649:10
move 536:20 550:21 566:22 615:1
628:6 667:20 670:24 681:6 726:13
740:3 770:11 775:11
moved 553:9 700:4 735:2 775:10
786:9
Moving 704:15
Ms 536:4 537:1 673:1,2
much 602:16 608:14 628:16 682:
11 708:22 725:21 764:19 774:6
789:11 793:24
multi-line 556:7,10,17,20 557:1
558:6,17 559:6
multi-tenant 694:23
multi-year 579:17
multiple 558:16 638:25 642:8
693:16 694:23 695:7 763:12,17
multiples 693:25
multiplexing 687:16
must 545:4 554:8,9 592:19 606:13
615:2 616:7 621:11 732:18 748:23
749:3 757:1,9 780:19 782:18 784:
21 789:19
mux 698:8,9
muxed 697:16
muxing 687:15,21
myself 749:17

N

N-i-n-a 765:17
NAC 580:3 687:8
name 539:3,5,6 558:4 569:12 593:
23 668:13 709:5,6 765:13,14
named 653:5 760:3
names 659:24
narrow 739:24
national 727:9,16,19
nationally 727:19
nearest 603:11,15 625:9,10
nearly 681:13
necessarily 580:24 600:7,12 604:
24 650:23 652:25 688:18 738:18
779:7 786:22
necessary 611:2 672:13 731:15
754:12 781:5
need 536:9,15 546:1 551:15 553:
10 562:1,3 563:21 602:25 609:14
651:5 662:9 663:10 665:3 707:17
710:11 711:13,16 716:2 725:1 730:
11 731:17 732:2 767:13 769:24
771:9 774:10 790:25
needed 716:22
needs 582:3 610:8,10 651:16 652:
10 705:19 747:23
neighborhood 623:4 693:6 694:
11,14,21 707:2,24
neighboring 697:4

net 721:18
network 541:20 542:3 584:20 617:
23,23 630:8 696:21,24 697:21 698:
25 699:1 706:12 707:9 751:12 783:
5,12
networks 706:13
neutral 700:1,8,15,17
never 538:11 565:24 566:13 655:5
659:24,24 715:14
nevertheless 653:23
new 552:5,8,13,13,14,18,20 553:3,
12 554:3,5,21 555:2 559:9,24 560:
3,9 564:6 565:11,15,25 566:13,17
568:20,24 569:10 570:9 573:2 584:
8,15 591:12 592:14,17,20 593:8,11,
25 594:18 608:9 616:12,16,24 617:
2,7 635:17 641:22 710:24 714:15
731:12 732:10,17 744:21 745:4,20
748:6,11 749:3 755:23 792:1
next 537:16 554:21 559:17 566:22
576:4 581:20 586:14 599:1 616:6
623:18 643:1 681:7 685:25 698:15
725:18 728:22
Nina 765:8,14,17,20
Ninth 651:9 653:21
nits 766:13
nodding 791:20
Nods 791:19
non-attorney 616:18 617:6 652:3,
8
non-confidential 686:25
non-discrimination 545:3
non-discriminatory 545:12 745:
22
non-facilities 722:19
non-location 664:10
non-resellers 773:6
non-structural 755:18,21,24 756:
1,3,7 758:7,9
non-telecommunications 782:
21
none 565:14 639:6 742:23
nor 656:19 689:23 735:18
norm 698:17,22,24
Northwest 539:2,3,5 540:14,17
542:20 584:5 585:1 595:6 627:6
708:25 725:25 775:14
notation 583:1
note 539:1 543:23 563:20 571:15,
22 572:1,7 579:8 582:22 594:22
604:8 613:3 653:1,8 654:13 657:
11 663:10 670:6,22 672:10 681:11,
24 682:1,8 683:1,6,10 686:23 691:
12 710:14 742:7,17
notebook 568:14
noted 538:3 544:16 549:16 567:7
574:23 605:21 653:11 654:11 694:
6 740:11 767:1
nothing 634:20,24 662:7 708:3
727:3 751:3 764:18 776:5 780:9
792:13
notice 777:9,12 778:25 779:4,11
784:12,17 792:16
noting 563:23
notwithstanding 566:16
November 564:13 565:12 567:3,
25 568:17 571:19 572:8 580:13,13
582:24 594:11 614:3 630:16 645:
10 715:10,21 717:1
nullity 781:17 782:20
numbered 627:5 672:3 673:7 675:

23 744:4
numbers 557:16 606:2 607:15,16,
18 608:3,11 625:14,22 656:8,13
657:22 658:6 692:23 694:18 700:
13 706:7 711:2,3,6,13,14 714:13
715:3,8 717:9 726:25 727:4 776:
24 777:1 780:2
NWPAs 710:17 730:8,23 746:18
NWPC 539:13

O

oath 539:20 654:19
object 543:19 546:23 549:12,13
553:6 563:19 565:17 571:14 577:
23 578:25 585:15 588:21 589:3,18,
24 592:23 594:19 597:4,8 606:25
611:9,25 621:18 625:18 628:7 636:
3 650:21 651:19 654:15 666:5 691:
9 694:4 696:19 725:16
objected 571:5 576:14
objecting 677:11
objection 549:16 551:3 563:18,24
567:6 571:9,12 572:4,15,18,19
581:17 582:12,13,17 587:25 588:6
594:22 596:3,7 613:1,3 618:13
623:24 626:11,22 627:20,21 649:
22 654:7,8 655:17 664:21 666:6,
21 667:16 670:3,5,23 672:16 676:
22 677:22 681:22 682:23 710:1
726:15 735:5,6 775:17 777:6,11
779:10,17 784:14,15,16 786:3
objections 536:11,13,23 538:15
574:18 581:16 595:18 618:10 650:
17 661:6 664:16 666:19 670:6 672:
10 681:24 683:6,10 710:2 766:8,
10 775:15 777:5
objective 544:10 609:1
objectives 544:5,8
obligation 621:16 746:18 781:16
782:23,23,25
obligations 787:1
obtain 597:2,19 632:2,15 633:10
634:10 721:12
obviously 597:5 605:22 628:4 661:
11 670:8 716:4 779:22 791:2
occasion 622:13
occasions 586:19
occupied 695:12
occupies 696:11
occupy 695:22
occupying 696:4
occur 594:3
occurred 605:14
occurs 735:1
October 734:2 736:3,3,24 738:8,
25
odd 772:8
odds 750:3
offer 537:19 538:14 544:6 549:7
550:16 562:17 574:17 576:23 581:
14 582:11 584:12 587:24 593:9
594:6 595:17 596:1 597:24,25 604:
25 608:20 618:8 623:19 626:10,20
627:19 638:19 639:4 640:1 650:1,
20 652:17 653:25 654:5 661:4 662:
17,24 664:23 665:1 666:2 670:2
672:18 679:1 681:21 692:13 709:
23 732:22 746:20 766:6 769:7,17
771:23 780:14 781:21 786:13
offered 594:20 604:23 629:8 640:
15 650:23 663:22 696:19 704:6
732:21 742:14 750:13,18 767:3

769:11 771:2,9
offering 537:25 553:23 632:7 661:
20 672:9
offers 629:1 638:21 770:20 772:1,
5,7
office 545:22 620:2 638:10,13 696:
14 705:23,23
official 777:9,12 778:25 779:4,10
784:12,17 792:16
offset 761:4
often 563:4 660:22
Okay 537:5,7 542:16 556:4 563:
21 565:7 567:12 568:12 575:17
576:3 577:8,17 578:9 582:1,4 584:
14 586:16,22 591:14,23 596:23
597:17 602:7 604:19 607:12 611:
13 618:3 619:9,17,23 621:4,15
623:18 625:6 637:7 642:7,10 650:
13 654:24 655:14 657:10 663:10
673:1 687:2 693:4 709:1 711:14
717:5,9 718:14 719:22 720:3 721:
21 731:10 739:5,25 740:10,14 741:
21 747:7 748:1,22 750:10 759:9
764:19 768:17 771:5 772:6 773:9,
23 782:12 785:15 792:19
old 601:20 648:8 697:15 787:11
Olson 593:18,19
Olson's 593:23
omit 585:18
omitted 750:24
ONA 584:22 589:14 592:2 748:8
once 583:10 602:3 660:5 695:1
788:15
one 537:12 544:8 555:20 556:21
567:12,12 578:8 586:5 596:4 597:
5,9 600:8 603:13 613:22 615:16
617:15,15 618:6 623:2 625:15,24
627:14 628:25 629:21 631:2 634:
22 641:9 649:18 652:22 657:6 664:
8,9 670:25 671:4 672:22 678:4
685:20 690:20 693:24 703:5 704:
15 708:8 721:6 725:1,4,5 727:13
729:14 744:19 745:1,17 754:16,17
758:5,9 759:6 762:24 766:22 770:
1,1 775:20 777:1,16 779:8 783:15
786:7 788:9,14 790:8 792:25
ongoing 666:21 667:15 716:21
only 548:1 552:13 555:7 605:12,13
615:14 636:9 652:2 684:25 707:15
722:16 727:13 728:25 732:21 736:
15 737:12 741:16 746:15,23 758:
11 760:2 768:1,7 770:9 778:9 788:
21 792:25
ooOoo 540:3 628:21 635:2 637:17
701:9 708:5 709:9 714:20 760:9
764:4 765:19 767:19 785:17 789:2
790:9 791:10
open 584:20 792:25
opening 793:18
operate 599:18 634:6 675:4 757:
14,16
operated 541:9 724:16 726:20
728:4,16,22 729:1,10 730:1
operates 638:8 721:3 728:6 757:
11
operating 560:24 561:15 600:8,
11 755:17 757:25
operations 542:11,13 549:2 733:
14 758:3,3
operator 620:17,18,23 621:11,17
operators 622:1 684:25

opine 656:5
 opinion 544:7 549:7 550:17 553:3, 18,24 593:1,9 595:10 612:1 613:14 617:6 636:10 652:17 653:16,20, 25 734:3 783:18 787:4
 opinions 543:22
 opportunity 614:4 649:15,16 787:3
 opposed 542:3 547:20 549:11 550:7 553:20 560:10 617:22 625:19 694:23 695:4,17
 option 610:16,19 611:8 628:4
 optional 617:16
 options 683:21,22 771:1
 ordered 682:5 749:21,25 750:1
 orders 543:7 551:14,25 719:1 730:12 731:19 735:24 746:6 747:13 749:1,5 750:3 756:1 758:25 759:25 779:11
 ordinary 660:3,10,20 728:11
 Oregon's 552:22
 organization 659:8,21,23
 original 552:16 564:14 583:6,12 630:15 725:7
 originally 715:8 716:20 737:21
 originating 574:13 575:23 616:2 618:20 627:8,18 762:25 763:5
 others 563:13 615:17 697:15
 otherwise 781:6
 ought 653:12 788:9
 out 538:8 540:16,18 586:19 590:13 596:24 597:5,17 616:6 624:3 656:9 661:25 669:9 671:25 691:17 693:1,13 695:23 697:18 698:13 703:5,14 720:17 722:15 723:1 724:23 729:1 732:19 744:16 745:17 757:15,17 768:20 769:22 779:3 781:5,12 783:16 788:10
 output 791:4
 outside 547:1 697:24 781:4 790:18
 outstanding 707:10 715:25
 over 559:25 560:13 562:17 563:6 579:16 583:7 595:7 598:25 606:23, 24 609:10,13 612:18 627:24 634:10 675:8,16 688:14 691:25 724:2, 17 726:21 727:12,20 733:15 748:5 755:5 763:5,12 766:9 769:11 775:3 776:11,15,18,20 777:11 784:16 787:20,23 789:6,10
 overall 555:1 575:4
 overcome 767:10
 overhead 560:4,11,15,19,22,23,24, 25 561:2,5,9,10 562:16 564:9 569:18 570:3 731:24 736:19,22 737:23, 25 738:10,16,19 739:16 742:12,18 743:2 744:7,23 745:13 746:8,17, 22 751:24
 overloading 742:2
 Overruled 611:11 653:17 710:2 766:9
 overtly 734:12 737:2,8,11
 overturn 653:21
 overturned 611:20,21
 own 542:17 562:14 615:3 616:3 636:10 707:13,17 757:20

P

P-I-C-C 555:23 556:11
 package 647:9 770:21 771:11,21 772:7,8 773:25
 packages 639:7 772:5

packed 770:10
 pages 649:13 654:25 681:19,25 682:8 714:8
 paginated 745:18
 pagination 744:2
 paid 542:1 610:22 718:22 761:20 762:16 773:5
 pairs 648:15
 papers 554:6 575:18 584:7 589:10
 parading 662:5
 paragraph 586:6 600:14 614:15 701:23 734:6,17 735:17,19 736:4, 14 738:13 740:6,7,15 742:6 744:16 750:6,8 776:7,14,17 783:25 789:18
 paragraphs 584:23 589:14 778:5
 Pardon 539:9 766:13
 parens 584:22
 parenthetical 710:10,10,12
 parity 567:14 578:19 580:19
 Parks 658:16 659:14,15
 part 545:21 548:24 578:7 584:19 597:25 598:23,23 635:9 636:12 644:22 658:14 660:5 694:2 707:17 728:2 733:7 754:10 784:25
 parte 759:16
 partially 717:15
 particular 548:16 561:16 596:23 598:3 599:2,18,22 606:13 632:12 633:12 638:5 639:6,9 686:9 688:23 690:14 692:20 724:23 732:7 734:17 735:19 742:6 744:22 745:24 746:13
 particularly 552:4 662:23
 parties 537:6 582:2 644:17
 parties' 552:5
 partition 638:9,10,13
 parts 586:3 710:1
 pass 538:9 779:2
 passage 544:14 572:24 670:7 678:24 679:9 778:10
 passed 537:20 538:8 546:22 547:7
 past 577:12 591:7 614:5 657:23 658:22 675:11 724:2,17 733:21 748:12 781:14 784:24 792:12
 patience 654:16 701:2
 patterns 602:15
 pay 545:4 546:9,18 547:13 606:14 718:9,17,25 719:6,12,18 720:11,16, 25 721:4,16 722:16 754:22 756:13, 19 757:1,21,22 791:2
 paying 757:23
 payphones 544:9 546:6,18 548:25 615:24 629:18 634:14 724:2,9,13, 15 726:20 727:4,12 728:4,16 729:10 757:14,18
 pays 548:22 721:17 756:11 772:25 773:14,24 774:2
 PBX 638:18 705:11,12,14,18 706:1
 pen 586:17
 pending 592:5
 penetration 609:2
 penny 623:2
 people 594:1 629:16 633:23 657:2 659:18 660:3 759:17
 per 559:6,6 622:24,24 640:22 642:3 645:22 648:5 650:7 656:6,10,21 662:19,21,24 670:16 677:20 682:16 699:4 736:20 738:22 766:22 767:11,11 770:6 772:10,20,25 773:

14,24 774:3,5 777:20,24 778:1 779:16 780:6,8,10,12 783:16 785:22 786:2,19 787:5 788:4,20
 percent 610:2,3 625:16 626:6 692:1 693:10,15,24 695:12 722:6 727:20 729:21
 percentage 577:17 608:3 609:20 610:4,6
 perception 598:8
 perform 622:5
 Perhaps 547:15 566:25 611:21 620:17 695:24 706:8 751:19 770:21
 period 579:17 581:13 592:4 608:21 727:2 729:22 750:14,17,20 778:9 779:14 780:1 789:10
 periods 777:18 778:5
 Perkins 655:24
 permissible 597:10,12
 permission 651:6
 perpetuated 670:20
 person 621:21,22 634:2,9 636:5,6 652:18
 personally 621:14 659:20 783:15
 perspective 541:8 581:5 618:5
 peruse 649:15,16
 Phase 718:10,15
 phone 556:16 620:16,22 633:24 634:3,4
 phones 545:14 727:7,10 728:22 729:22,25 730:1,2
 phonetic 617:15 687:15
 photocopier 585:20,22
 phrase 626:3 701:20 703:6 737:22 738:2 739:16 741:20
 phrasing 689:4
 physical 641:2 689:13 690:22 705:19 748:10
 PIC 555:15
 PICC 555:21 556:6,7,10,11,15 558:17 559:6 587:4,11,22 629:13 751:25 754:13 759:3 761:4 762:5
 pick 620:16,21
 picked 729:23
 piece 717:3
 pin 770:1
 place 609:14 620:24 758:13 777:19 778:6 779:15 780:7 785:4 786:19
 placed 620:18
 plain 601:20 648:8 697:15
 plaintiff 649:1,1 651:16 652:10
 plan 700:10
 planning 584:11 787:7
 plans 783:13
 play 714:16 718:21
 plays 597:24
 pleadings 672:7
 please 543:25 557:15 558:23 565:5,10 568:15 570:18,23 576:21 582:3 583:18 585:18 586:25 588:12 589:9 590:8,13 594:7,23 595:23 597:16 602:23 603:1 605:2 606:3 612:20 620:24 626:17 627:3 645:6 650:12 656:2 657:14 658:4,10 660:17 669:5 673:1,7 675:22 679:13 681:10 683:15 688:2 691:13 692:19 696:8 701:6 703:1 709:4 710:7 720:1 728:3,15 729:9,15 730:16 733:23 735:24 765:9,12 791:21
 plugging 566:10

Plus 603:23 608:9 638:1,2,8,20,22 639:2,21,23,24 640:13,15,22 641:18 642:3 643:3,24 644:5 646:15 647:3,8 657:7 661:11 663:24 664:3 668:23 669:1 676:14 677:8,20, 23 679:8 681:12 682:16,21 687:5 689:21 690:5,11 693:1 694:16 695:1,2 699:16 700:12,22 702:15 704:16,24 717:19 751:24 761:4 762:16, 17 766:19 767:9 769:8,12 771:23 777:21,22 778:1 781:12 782:24
 pocket 720:18 759:6
 point 536:19 548:16 554:11,14 590:5 604:7 626:9 629:21 631:2 641:15 649:18,21 666:9 673:17 675:11 678:2 689:20 691:1,6 693:13,20,20,21 698:5,6 704:15 711:17 731:20 755:21 759:18 761:22 781:7
 pointed 661:25 728:25
 points 643:4
 policy 547:7,9 554:1 609:6,10,11, 19 660:13 673:5 677:21,25 678:1, 16,23 679:3,5 783:17
 port 580:5 647:22
 portability 610:11
 portion 645:9 686:17 714:6 715:24 719:9 726:13 737:12 739:22 747:17 757:11 764:1
 portions 665:13 681:16 682:24 717:2 739:10
 Portland 641:4 695:7 697:25 705:16 707:14
 pose 588:24
 posing 589:17
 position 553:19 569:25 571:7 590:1 630:23 636:16,16,17,24 637:2,4, 6 659:2 668:8
 positive 773:20
 possession 649:17
 possible 609:7,8 631:20 633:23 634:1,2,8,9 643:13 689:6 698:16 699:25 760:13 789:5,8,9
 Possibly 561:11,13 629:13 703:24
 post 678:20 792:17
 POT 601:22 602:1
 potential 701:20 702:5,6 763:4 791:6
 potentially 787:6 790:24
 POTS 601:19
 power 651:17 653:2,7,9 656:6 662:20
 precise 609:23 643:23 646:1 684:25 689:4 707:23 767:7
 precisely 573:21 592:16 641:18 648:3 693:24
 predated 668:19
 predates 670:7
 predecessor 733:6
 predecessors 788:17
 preempted 544:13 550:22 551:6, 10
 prefer 564:21,24 575:9 595:8 628:14
 preferred 751:20
 prefilled 565:12,16 567:3 568:18 569:9,16 594:11 648:23 710:5,15 749:17
 prehearing 793:17
 preliminary 571:23 595:17
 premarked 537:23

premise 541:16 568:11 689:15
 696:1 698:15
premised 791:14
premises 569:22 647:20 705:19,
 20,20 782:11
prepare 576:24 709:19 710:21
 766:4
prepared 564:12 576:24 596:15
 597:11 604:11 709:20 715:21 716:
 8 731:1,9
prepares 660:20
preponderance 656:20
prescribe 755:18
presentation 660:17,19 663:18
presentations 660:22
presented 538:23 762:9
president 659:7,15,21
presidential 660:15
pressure 703:6
presumably 587:22
presume 725:13
presumes 613:13
presumption 612:4 690:21
pretty 637:5 761:24
prevent 620:12,20 635:24 758:13,
 20 786:16
prevents 774:11,12,12,15,19,22
previous 711:3 737:23 759:25
 791:5 792:3
previously 540:6 575:24 581:2
 607:9 623:10 631:8 644:15 645:3
 656:18 695:11 705:1,15
price/service 703:7
priced 564:2,5 567:4 568:5,9 570:
 1 602:8 640:11,20,22 641:14 643:
 25 663:23,24 694:16 702:19,20
 703:14 704:1,7
prices 554:16 569:8,18,25 570:1
 572:22 574:16 577:4,5 579:10 580:
 25 583:10 591:1,2,3,23 592:5 593:
 22 597:25 598:15,16,17 599:2,13
 603:19,20,25 604:3,6,10,13,20 605:
 2,11,15,16,18,19,23,25 606:15 607:
 2 608:5,18,20 609:1,14 630:16,21
 631:20 632:1 645:24 646:1 653:18
 661:8 699:5,24 700:4,12 704:23
 710:20 711:2 717:22,24 718:1 719:
 7,23 720:7,10 744:11 747:1 791:
 22
pricing 547:7 548:20 551:11 552:
 1,22 553:4,13 554:3 580:17,18
 581:4 583:6 593:7,20 597:22 599:
 11,12 602:9 603:22,23 605:13 613:
 8,8,13 630:10 635:17 639:15 648:
 6 650:8 656:6,10,21 661:15 662:
 19,21,25 663:19 664:2,11,12,19
 670:17,17,19 673:5 676:15,19 677:
 20 688:19 693:17 699:24 700:12
 705:10 745:11 747:9,12,14,16 748:
 15,17,23 750:12 772:20 774:4 777:
 20,24 778:2 780:7,9,10,12 785:23
 786:2 787:5 788:4
primarily 572:5 580:20 639:25
primary 555:10 650:5 676:9
Prime 639:19,22 640:5,9,10,10,12,
 14,21 661:8 663:21,23 664:1,2,5,9
 668:20 702:2,8,15,20
prior 538:10 572:24 627:10,12
 641:11 657:18 679:8 733:19 777:
 23 792:16
private 703:14,23,24 705:14 757:

8,22
pro 733:7 793:6
probably 585:19,23 594:5 605:23
 608:18 609:12 662:9 731:21 756:
 20,20 782:11
problem 633:15 729:20 762:7
problems 633:11
proceed 537:11 538:17 765:3
proceeding 540:14 552:22 563:12
 565:19 577:5 587:12,13,14 592:9
 594:12 598:8 637:23 656:1 682:7,
 22 685:3 732:22 744:14 748:9 764:
 12 766:15 767:24 779:1 791:16,22
 792:9
proceedings 683:2,4
process 731:17 782:17 783:11
 784:4
produce 669:11
produced 649:14 671:9,25
product 622:12 639:11,16 640:10
 641:9,13 659:9,12,13 661:10,17
 665:18,22 668:10,14,17 689:22
 769:12 770:22 771:8 772:1
products 668:10,11 669:24 770:
 20
proffered 682:18
profit 563:1,3,5,10 791:5
profitability 789:14 790:20,24
profitable 757:1,7,9,12 787:3 790:
 2,4
program 723:8,11,13,20
prohibit 549:5 550:19 634:18,20
 670:15
prohibition 545:2 549:10
prohibits 544:17 549:10 550:4
projection 554:12 571:2
projections 575:3
promote 544:9
pronounce 672:22
proof 652:14
proper 710:19 785:1
properly 710:13 736:22
proportion 703:16 704:12
proposal 567:21 583:6 603:22
 607:21 630:17 643:5 644:2 645:15
 670:20 710:23 751:15,18,19,20,21
 752:1 767:3 773:3,21
proposals 593:7 630:16 661:15
 773:18
propose 736:20 746:24
proposed 554:23 557:23 563:15
 567:22 569:18 577:4,5,11 579:4
 587:9 598:15 603:19,20 604:3,9,
 12,20 605:3,6,16,19,25 606:5,5,6,9,
 15 607:23,24 608:11 612:8 642:15
 643:11 644:8 645:21 646:2,16,17,
 21 661:8 663:24 664:13 710:9,20
 716:6 730:11 737:5,24 738:21 750:
 7,11,23 751:1,2,3 766:18 773:10,
 12
proposes 604:16 631:7 690:4,20
proposing 575:25 578:15 593:13
 608:14 630:18,21 732:2 790:13
proposition 773:13
proprietary 711:14 763:10
protective 651:3 663:7
prove 651:12,17 652:10,23,23 767:
 8
proves 662:7
provide 545:17 548:17 555:1 557:
 4 563:13,16 575:9 600:2 607:20

615:3,23 621:11 623:12 632:20
 633:1,4 636:21 656:10 662:21 675:
 12 684:22 686:2 687:17 693:5 702:
 22 711:13,14 725:17 728:15 729:9,
 15 731:15,22,23 732:3 741:11 755:
 17 764:10 772:16 781:2,14 782:4,
 23 787:21
provided 541:9,12,20 542:3 545:
 10 546:1 558:15 574:11 575:22
 586:13 602:6 618:23 619:10,18
 621:25 622:21 631:17 645:24 649:
 20 653:7 669:12 671:9 684:23 702:
 7,9,23 725:15 728:18 742:7
provider 541:12,13 599:17,21
 610:16 621:5,17 629:5,6,19 631:
 25 632:2,3,6,6,6,8 633:3,10 635:25
 724:23 727:25 730:1 759:4
providers 547:13 548:6,7 599:9,
 13 610:20 621:10 629:9 630:25
 631:22 634:18 635:20 684:18 685:
 4,5 724:23 754:22 757:9,22
provides 542:5,16 548:16 560:4
 616:2 624:24 638:16 639:8 645:24
 646:3 675:18 754:20 755:6 757:25
 760:23 780:16 781:23 783:4
providing 560:14 569:5 611:2
 630:10 631:22 684:5 705:5
provision 544:11 601:2 624:1 750:
 1,2 758:16 781:6,11
provisioned 684:18
provisioning 633:11,15
provisions 545:3 738:17 785:3
PSPs 750:20
PTAS 541:25 542:2,16 543:4 545:
 5 546:25 547:7,8,11,19,25 549:5,
 11 550:5,6 552:1,14,22 553:4,13
 554:18 571:2 610:18
Public 539:3 541:12 547:6,8 555:
 18 558:16 577:13 598:11 603:6
 607:13 608:23 609:6 625:15 644:
 15 676:10,20 678:1,3,11,14 731:11
 732:9 754:21 776:1 778:3,12,19,
 21 783:17
PUC 589:14 590:13 611:22 612:
 23 678:2,17,23
pull 599:24
purchase 599:22 600:6 609:8 629:
 16 632:21,24 636:20 703:18,22
 707:12 721:7 756:23 771:17,19
 783:5 784:2 787:4
purchased 675:10
purchases 721:5 756:10
purchasing 599:3,14 636:1 718:8,
 16 719:5 721:15
purpose 565:22,23 566:6,9 651:5
 664:19 691:15 758:5 768:2
purposes 601:16 602:8 604:11
 641:1 646:6,20 647:2 667:12 685:
 18,18
pursuant 746:6
pursue 567:10
pursuing 784:5
put 548:25 551:18 577:17 591:7
 601:9,10 604:7 624:21,25 625:1
 671:2 696:1 702:25 711:4 760:17
 773:18,18 774:13 786:14
putting 640:8 705:18 786:19

Q

qualifications 588:16 589:2
qualified 700:7
quality 704:13 723:4,5

quantifies 624:18,20
quantity 770:2
questioning 543:20 549:14 553:6
 565:22,24 567:11 629:22 631:19
 651:20 686:1 704:19 706:4
questions 536:6,6,7,24,24 537:2,3,
 4 553:9 557:10 564:20 566:9 627:
 23 629:23 683:13 685:14 701:1,14
 704:21 740:1 749:8 760:6 785:13
 790:18
quibble 732:11
Quickly 619:24
quid 733:7
quite 616:21 646:13 668:7 695:22
 759:10
quo 733:7
quote 552:17 555:2 558:15 576:17
 614:15,18 724:12,13 730:10 737:
 25 738:3 742:11,15,17,19 750:6,11
 774:6,10,11 781:19,20,21,24
quoted 616:15 737:12
Qwest's 542:13 553:3,19 555:8,9,
 21 569:2,3 571:7 575:4 577:4,4
 582:7 585:1 588:13 594:20 596:12
 597:2,19 601:4 602:23 603:19 609:
 21 618:17 624:16 630:15,17,23
 631:25 636:17,24 637:4,6 641:1
 643:5 671:25 672:15 688:9 706:19
 710:17 711:12 720:14 726:1 728:
 17 730:7,20 733:6,15 734:11 737:
 10 747:4 756:9,11 763:5,11 793:2

R

Rackner 536:5 537:1
raise 610:17 634:13 700:11 709:1
 765:9 772:19 774:3
raised 540:17 664:24 733:18
raising 610:22
range 594:5 610:1 625:12 638:24,
 24 735:22 737:3 738:5,22 763:16
rated 546:3 603:17 608:17
rather 545:20 558:19 564:22 566:
 4 580:21 617:17 624:19 647:4 648:
 11 671:7 699:17 705:23 711:3 767:
 11 785:3
rating 545:19
ratio 735:22 738:5 743:3 745:12
rationale 611:4
ratios 742:22,24
RBOC 733:5 757:12
reach 620:17
reached 761:17
reaching 738:12
read 559:2,2,3 587:6,7 589:1,6
 596:22 607:17 613:23 649:7,9,12,
 14 657:4 663:4 679:20 728:24 729:
 4,5,8,12 750:8 758:17 778:17 779:
 23 782:2,9 784:7,8
reading 619:12 761:21 782:1
reads 558:15 615:1 663:4 676:8
 744:20 784:2
ready 538:17 539:25
real 757:3,6 767:7 780:11 787:20
realize 622:15
really 654:9 662:7,7,13 682:11
 727:3,5 749:7,8 756:13 768:16
 781:13
reason 545:7 572:4 606:7 670:10
 695:25 696:15 705:10 706:2,3 757:
 19 763:17 767:7 776:23,25
reasonable 542:15 554:9 560:6,
 10,10 576:18,21 577:5,9,10,14,18

582:8 591:3 594:17 598:16,17,18 599:14 631:7 642:9 696:24 705:18 736:19,21 737:22,25 738:10 739: 16,20 742:2 744:7,23 746:5,22 747:5 reasonableness 745:13 reasonably 648:4 738:1 reasons 608:21,25 664:10 666:3 703:21 704:4 723:4 742:1 754:16 783:16 reassembling 706:12 rebuttal 550:2 570:10 653:11 656: 3,16 682:14 683:16 692:20 750:24 recall 543:24 544:11,14,19 549:6, 9 550:14,22 551:6 552:2,6 554:21, 24,25 555:3,4 556:2,8 563:25 564: 15 570:5 575:2,5 579:13 580:8,15 584:4 592:15,16 594:4 603:23 609: 23 611:4 620:4 622:25 623:2,3,4 630:1 633:21,22 634:15,16 635:8, 14,22 641:21 653:5,6 654:22 663: 22 665:20 668:13,15,18 671:2 678: 4 681:9 686:16 688:24 689:4 690: 6 704:19 707:23 743:9 773:1 785: 24 recalled 540:5 recalls 539:17 receive 587:22 641:20 643:10,24 719:20 721:17 733:13 761:4,8 767: 5 received 571:16 578:5 725:8 767: 4,6 receives 560:13 601:22 602:1 recent 604:21 792:12 recently 614:7 634:13 639:14 668: 24 789:21 Recess 595:14 637:14 701:8 765:7 793:25 recite 544:4 recognition 620:2 recognize 725:25 recollection 544:4 550:18 552:11 567:19 569:11,20 570:4 574:15 602:15 623:6 664:5 671:19 706:25 775:16 793:18 recombining 706:13 recommend 566:4 567:4 761:9 recommendation 538:9 580:12, 18 598:6 699:4,7,12,21,25 700:14 761:3 763:2,7 790:25 recommended 567:16,17 568:5 recommending 567:14 577:21 578:19 581:8 700:23 Reconsideration 614:1 reconstruct 766:16 record 536:16,20 538:1,13 539:2 543:20 551:14 555:22 559:2 565: 19 568:3 570:23 576:7 582:23 584: 21 585:11 588:12 589:5 595:23 604:7,9 605:2 618:16 619:5,7,8 622:6 626:17 627:3,13 628:24 630: 17 643:20 644:11,23 645:16,19,21 663:11 665:9 671:3 675:15 681:11 682:11,12 686:23 688:17 692:4,7 705:12 709:5 711:16 760:18 763: 18 764:8,11 765:13 768:2 792:24 records 578:6 recover 548:21 562:19 702:20 721:9 762:4 recovered 563:7 recovers 577:15	recovery 720:14,22 754:17 758: 21 762:6,13,15 RECROSS 635:3 637:8 708:6 764:5 789:3 791:11 recurring 766:19 redesigning 700:10 redirect 628:5,22 635:5,11 701:10 760:10 764:1 785:18 788:24 790: 10 redistributing 700:18 reduced 592:6 791:22 reduction 581:8 661:14 700:3 reductions 700:19 790:13 791:14 refer 540:19 568:16 571:18 575: 10 578:2 584:8 586:20 600:13 616: 20 724:12 733:23 744:1 750:15 777:20 779:7 reference 552:9 585:14 629:24 666:16 667:6,22 671:3,13 715:16 724:4 725:3 727:5 739:6 741:12 764:7 referenced 574:5,7 587:13 604:5 611:15 634:12 678:4 715:12 737: 13 740:8 777:18 778:5 references 571:17 572:5 616:10 683:20 701:19 referred 543:8 545:14 555:20 573:21 575:17 584:10,17,25 595:4 604:14 609:16 612:11 613:25 629: 13 630:8,9 645:2 664:14 686:6 701:19 707:10 716:14,16,17 735: 13 750:6 756:1 784:18 referring 551:13 558:25 630:6,7 644:12,13 645:23 656:7 658:8 663: 19 686:1,2 699:8 724:22 727:21, 23,24 740:7 745:1,16 747:21 754: 20,24 769:24 785:5 refers 573:15 586:12 616:12 638: 9 725:2 728:22 736:13 744:6 747: 18 774:20 refiled 715:23 716:7 717:2 reflect 542:2 571:12 572:15 593: 11 603:22 686:17 693:21 711:2 715:15 reflected 604:9,12 605:14 686:21 786:23 reflecting 626:2 reflects 572:18 622:14,16 670:16 756:14 refresh 775:16 refused 731:14,22,23 732:22 764: 10 781:14 regard 592:21 666:3 728:12 731: 18 749:25 750:2 763:2 781:7 regarding 543:7 547:7 551:25 627:17 639:13 664:18 774:3 regardless 770:3 792:8 regime 750:12 762:9 region 682:16 register 633:4 667:15 registered 632:23 667:18 registering 635:25 registers 636:18 regular 642:1 regulated 548:22 551:20 577:15 597:23 608:17,19 755:11 regulation 551:7 597:24 609:15 regulations 550:22 regulatory 601:16 621:16 678:19 703:21 743:8,10,22 Reichman's 563:23 605:8 655:15	664:20 rejected 682:2 747:20 778:3 relate 560:24 613:8 705:7 related 555:2 560:23 660:13 relates 547:8 566:24 574:20 661:7 759:7 790:19 relating 584:19 631:19 708:8 relation 578:23 668:6 relationship 630:18 relative 568:11 583:5 693:1 694: 25 705:2 relatively 608:20 706:24 released 614:3 736:3 relevance 565:18 566:25 571:15 574:20 655:17 661:7,18 662:18 670:11 682:5 relevant 574:24,25 587:5,12 651: 17 653:3 664:17 682:21 718:5 725: 2,4 relied 711:3 715:15 738:4 relies 734:2 rely 579:19 610:6 710:22 736:25 relying 716:3 764:12,13 remain 581:10 757:10 remaining 693:11 remains 758:21 remember 655:1 778:16 792:2 remind 781:17 removed 773:18,19 render 781:16 renumbered 710:11 repeat 551:5 572:13 590:7 597:16 635:10 670:5 696:8 771:13 repeated 731:16 746:18 repeatedly 732:16 764:9 repercussions 603:24 rephrase 547:16 585:17 763:3 replaced 564:19 565:21 566:7 716:25 717:3,6,8 reply 793:19 report 566:18 reported 704:11 711:12 760:16 761:15 reporter 582:3 represent 537:23 538:6 540:13 558:11 578:4 637:23 655:8 664:5 667:8 669:8 671:8 672:2 767:24 768:1,7,8,18 783:21 representation 559:4 666:18 779: 14 representations 670:2 represented 655:16 656:1 665:11 representing 717:7 768:14 represents 747:4 requested 582:7 627:7 764:9 767: 2 requesting 589:5 requests 555:20 571:23,24 593:21 710:17 716:19 730:8 731:16,20 732:23 746:18 764:10 793:1 require 545:14 614:16 647:17,19, 22 660:14 690:9 744:21 750:7,11, 15 756:5 785:8 required 554:8 565:15 566:5 568: 24 620:1,16 629:12 647:21 651:12 652:6,14 718:9,17 719:11,18 720: 11,16,19 722:1 733:2 743:1 745: 12 748:6 780:14 781:2 782:13 787: 2 requirement 545:1 554:25 652:4 682:6 699:5 745:1 748:2,13 757:3,	7 781:4,8 782:4 requirements 544:5,12 551:25 552:25 553:13 584:18 589:11 616: 8 636:18 670:8 678:21 722:24 732: 19 745:3,4,17 746:6 755:19 requires 554:5,22 560:6 566:1 636:4 687:15 723:21 755:16 781: 21 787:20 reread 590:9 596:20 resale 650:9 662:25 664:14 670:9, 18 675:7,12,18 676:8,20 677:21 678:1,3,6,10,24 679:2 683:19 706: 20 721:5 722:1 778:12,14,18 779: 15 780:15 781:2,6,21 783:1 784:4, 5 785:3 786:16,19 resell 632:11 633:13 670:10 774:6, 17 781:11 782:14 784:21 789:12 reseller 702:10 768:9,12,14,22 769:4 771:9,18,23 772:25 773:14, 23 774:1 781:10 788:21 789:5 resellers 769:7,17 770:14 773:6 775:3 776:11 781:13 786:21 787:4 789:14 790:15,20,25 reselling 685:9 722:18 723:3,6 771:23 787:3 reserve 672:12 reset 767:9 residence 603:2 604:20 605:13,19 606:16,22 607:13,24 608:1,7 634: 3 708:9 residences 609:8,20 633:18 697:1 residential 563:17 564:3 601:6, 11,14,22 602:4,13,17 603:16 605:4, 11,15 606:4 608:15,18 609:3,7,22 610:6 694:12 702:17 707:14 resold 706:16,23 707:3,4,5 708:9, 11,14 721:4,25 722:16 778:7 780: 4 784:25 785:2,8 786:8,22 respect 538:1 551:12 629:11 631: 4,11 661:16 696:20 720:6,23 754: 19 respond 553:22 560:12 564:1 590: 11 600:10 648:19 649:12 651:14 694:7 741:10 responded 587:4 677:4 682:17 725:14 729:13 736:18 738:3,8 739: 18 respondent 577:1 586:8 589:23 591:8 593:21 respondent's 591:9 responding 724:12 responses 541:2 561:23 571:24 572:6 586:13 710:16,17 715:13 716:1,4 730:7,23 737:23 responsibility 659:2 668:16 responsible 659:9 665:19 673:5 responsive 588:25 589:20 restate 543:25 restating 590:3 restaurant 695:23 696:13 restrict 620:19 662:25 664:14 670:14,18 restriction 650:8 783:17 786:20 788:20 restricts 650:8 774:12,19,22 restructuring 786:10 result 604:4 700:5,21 721:13 retail 555:17 563:9 569:21 572:21 577:12 599:11,15 600:15,21,22 608:22 633:9 668:10 670:15 700: 19 745:6,8 774:11,15 780:16 781:
---	--	---	---

23
reticent 655:11
retrieve 568:14
retroactive 733:10
return 545:18 577:14 608:17 764:25 787:22
Returning 762:19
revenue 555:3,8,8,13 575:21 591:19 592:8 661:14 682:6 699:6,20,25 700:8,15,17,18,18 733:14 761:15 767:2,7,10
revenues 552:22 555:1 560:13 575:3,4 587:5,5,11,11 590:25 606:10,11 700:22
review 549:7 550:16 579:11,16 581:12 650:2 656:14,19,20,24 681:10
reviewed 580:24 584:3 614:6,7 650:5 655:3 657:1
reviewing 549:9 619:22 763:11
revised 558:12 645:8 710:23 711:2
revision 645:14 760:18
Rieger 668:12,13
right-hand 657:15
rights 670:14
rise 641:4 689:11 694:13 695:7 696:4 697:23 705:16
risk 537:18
roof 788:19
room 711:15
roughly 648:1 662:16 772:25 791:3
round 690:2
rounded 603:11,15
route 698:6
rule 678:10 695:17
ruled 581:2 613:10 676:9 781:4 784:20
rules 584:19 591:13 592:18 593:10
run 595:2 628:16 773:17 787:17,18 788:2,6,8
running 591:4
rush 793:11

S

safeguard 755:24 756:1,5,8
safeguards 755:18,21 756:4 758:7,9
sale 787:12 789:22
SALEM 536:1 694:20 695:5
sales 659:21
save 585:23 768:3 778:24
saw 787:11
saying 553:17,22 560:12 564:1 597:1 600:10 602:4 604:10 609:11 631:25 633:3 646:14 649:12 675:15 700:9 719:1,8 722:13 727:16 739:5 746:11 774:21 789:8
says 554:8 586:5 587:9 597:6,6 599:2 646:18 650:22 651:4 654:9 658:12,14,14 663:1 669:11 693:4 728:2 729:9,14 738:11 745:19 750:21,22 757:24 776:2,13,14,16,22
SBC 757:17
SBG 669:15
scenario 670:12
schedule 793:15,16
scheme 677:20 787:5
schools 638:6
scope 547:2 668:15 790:18

screen 547:25
screening 574:12,13 575:23 616:2 617:1 618:20,24 619:18 621:24 622:2,5 623:15 627:8,18 762:25 763:6
scrutinized 608:19
sealed 673:17
seated 709:4 765:12
Seattle 673:4
Seattle/ 653:3
Seattle/Tacoma 653:5
second 578:8 589:8 590:10,16 600:13 603:13 615:1 626:5 658:7 660:5 663:3,4 671:14,15 676:8 685:8 693:4 696:14 728:14 729:8,13 744:19 754:17 784:1,1 786:8 788:12
Secondly 661:19
Section 542:25 543:3,7,12 544:2,5,6,8,12,13,17 549:4,5,7,10 550:1,2,4,14,15,19 552:9 558:13,24 572:24 584:18 589:12 613:6 669:18 685:3 744:20 745:19 748:15,18 749:21 750:13,15 751:8,8 755:16,16,19 757:24 758:16
Sections 613:7 630:10 747:8,14 750:12,16,18
see 541:3 557:19 558:20 566:25 573:16 575:19 577:25 582:9,15 586:3,5,17 588:21 599:5 603:4,8,9 605:12 607:12 610:25 611:1 614:19 615:5 622:18 656:5,15 657:16,19,24 658:3,6,11 660:22 669:11 675:23 676:2,5,11 679:18 683:20,20 691:16 693:7 703:9,10 730:13 744:7,17 760:16 763:7 775:9 792:25 793:8
seeing 654:22 686:16
seek 650:20 761:24
seem 547:2 619:4 719:22 728:20
seemed 720:24
seems 547:12 661:20 677:5 729:18
seen 649:24,25 654:17 655:5 656:19 657:23 681:8,13 686:14 789:12
selected 649:20 662:6
sell 757:19 791:4
sells 555:7 587:21
semantic 677:2
send 660:3,11
sense 617:23 677:3 770:8,11
senses 770:7
sent 644:14
sentence 587:7 590:10,16 592:11 596:23 597:5,9,17,18 599:2 614:15,19 615:1,5 616:6 663:3,4 676:8 679:18 693:4 703:12 728:14,14 734:6,8 740:15 745:10 784:1,1
sentences 738:13
separate 542:8 601:16 608:22 620:9 636:2 672:5 697:6,6 755:7,9 756:6,6 757:10,12 771:20
separation 542:10,12
separations 755:11,13 756:2,2 758:6
series 666:21 672:3 749:1
serious 664:21 737:7
serve 639:12 648:12 685:1,19,21 686:8 688:23 690:14 693:19 694:19 695:8,18 696:16,17 698:18,22 705:19
served 578:9 582:23 633:9 645:11

648:8 688:18 689:1,8,11,14 690:9 695:16 697:4 715:18 716:19 725:13 727:24 730:23 784:3
serves 697:6
servicing 632:12,12 648:20 685:5,24 690:19 695:6 696:1 697:19 705:2
set 546:1,5 551:19 577:22 578:3,7,19 579:10 583:4 598:2,3 599:8,13 607:2 611:22 612:11,24,24 620:1 638:16 702:21 710:24 714:11 715:14 720:21 730:23 733:7 745:20,25 746:3,21,25 747:12 748:18 749:13 755:18 756:2 762:3,8,9
sets 546:10,12 715:13,13
setting 593:22 652:6,15 744:11 747:10 748:19 749:14 758:6 774:5
settlement 645:10
several 543:7 556:21 557:10 580:22 583:7 591:15 593:21 635:11 661:5 726:21 727:12 731:20 742:24 757:18 759:17
shall 544:22 758:1
share 639:1
shared 561:5 562:12,20,21 563:8 630:4 675:10 678:6 717:19,20,24 718:2,8,15,23 719:16 746:4,17 747:5 768:25 776:3 784:2 789:16 790:3
shareholders 789:23
shed 760:13
sheet 772:12,15
shifting 609:12 675:7
shop 694:20,22 695:4
short 701:4 773:19
shortcut 665:9
shortfall 761:14
shorthand 743:1
shouldn't 571:5 647:16
show 557:7,23 564:21 565:24 566:9 578:6 579:22 582:19 662:24 664:9 684:13 761:5 778:17 785:21 786:1 789:24
showed 635:6,12
showings 733:3
shown 557:5 562:10 604:13 606:17 608:11 694:3 760:24 761:1 780:2
shows 603:2,6,14 676:1 682:18 780:8 789:16
side 547:20 675:24 698:8
signed 663:7 725:9 759:15,19,21
significance 720:24
significant 597:25 715:23 716:5 727:10
signs 636:19
similar 541:23 569:22 579:25 619:10 638:23 663:17,18 703:6
similarly 634:18 640:20
simple 588:16
simply 585:13 599:3 636:16,25 654:13 655:18 662:21 707:12 777:9
since 538:13 539:4,6 553:9 565:18,20 572:14 585:4 586:19 589:7 592:4,25 669:12 677:23 693:13 700:2 710:11,21 722:14 777:24 782:9
single 556:6,10,14,15,22 557:1 558:7,8,10,16 619:2,3 642:4 671:24 694:19,22 695:4
singling 724:22

sir 637:21 723:14 730:9 737:15 739:12,14 741:23 743:11
sit 591:5
site 743:22
situation 689:9 757:8
situations 754:20
six 596:24 749:1 789:25 790:1
size 695:2 727:1 729:24,24 769:23
sized 769:4,21 770:15
sizes 646:11,16 693:19,21 773:6
skip 683:13
skipped 692:17
slash 688:22 733:15
SLC 587:4,11,15,17,22
slide 663:20
slight 580:9,16 602:19
slightly 594:14,15 625:12 638:24 648:10
slip 625:20
slipped 677:3
small 610:4,6 659:5,21 668:11 669:15 689:1,6,14,15 695:11 696:13 769:4,20,21,23 770:7,15 773:7
smaller 638:24 696:16 698:4,15
Smart 545:9,15 546:6,9 547:25 548:15 569:5 587:10 601:25 615:11,24 617:18 619:11,18 620:1,5,10 629:2 731:11 756:20,23
so-called 537:25
social 601:16
societal 608:21,24
software 638:9,12
sold 691:25 706:15 707:21
sole 679:6 706:2
solely 640:9
someone 737:8 782:14
someplace 689:15 792:2
sometime 777:23
sometimes 609:16 622:10
somewhat 567:24 616:21 652:20
soon 570:19 733:5
sooner 778:11
sorry 538:24 550:13,25 551:4 557:17 560:16 561:17,25 568:1 571:16 599:21 605:3 611:12 612:17 619:15 621:1,12 622:19 632:1 633:25 635:9 636:11,13,14 642:2 647:15 658:6,9 659:1 660:5 665:22 667:24 673:9 679:15 683:8 689:16 691:2,4 692:25 699:8,11 720:3 756:18 757:25 760:19 762:10,14 771:25 778:21 780:24 781:1
sort 574:19 620:3 648:14 703:5 704:24 719:23 758:8
sorts 638:6 678:10
sounds 741:22
source 616:15 727:14 733:14 749:5,5
sources 720:22
South 757:18
space 622:10
span 580:22
spare 540:25 698:14
speaks 588:21
special 571:6,9,13 572:16 573:2 576:14
specific 543:15 544:14 549:6 550:14 555:5 561:16 569:14,20 570:5,12 575:6 577:17 579:15 594:4 611:4 623:1 640:22 641:3 646:10 651:13 664:4,8 676:15 684:8 691:17

694:17,17 696:6 699:24 700:11 706:7 732:19 739:23 751:10 760:3 specifically 545:11 549:20 580:7 599:12 640:21 653:6 655:25 656: 15 657:6 668:15 701:19 715:14 724:18 745:3,16 748:4 751:16 specificity 554:7 specifics 602:14 specified 562:11 564:7 624:22 specify 554:7 575:25 speculate 614:25 speculation 611:10 786:4 speed 666:7 spell 709:5 765:13 spells 723:1 spend 662:14 spite 609:19 splice 698:5,6,15 spoke 657:6 spoken 658:23 sponsor 691:10 sponsoring 579:19 593:13 spread 645:8 spreadsheets 605:13 squeeze 791:5 Staff 536:7 537:3 645:13 stamp 578:3 669:6 725:10 stand 539:18 555:10 612:6 646:1 669:15,19 687:2 689:14 728:21 765:9 standard 638:16,25 640:14 707: 16 747:12,14 748:8,15,18,23,24 749:4,13 762:1 770:11 standards 747:9 748:17 stands 542:1 587:16,17 706:11 start 540:16,18 604:10 612:18 637:12 646:13 711:7 755:5 770:12 started 771:15 781:20 starting 554:11,14 564:8 731:21 777:18 784:1 starts 589:8 590:13 596:24 597:17 616:6 656:9 693:1 703:5 744:16 state 547:6 550:22 551:7,11,14 555:7 584:5 591:13 598:25 603:10 605:2 606:10 609:3,6 613:11 620: 11 623:12 624:19 625:8 633:18 636:19 682:7 684:17,19 704:8 706: 23 707:21 709:4 720:11 722:14 723:19 724:1,12 727:4 728:16 729: 10,20 730:2 731:10 738:9 742:11, 21 758:24 762:3 764:12 765:13 774:9,10 789:14 stated 544:8 588:18 598:11 611:1 616:19 637:5 730:10 731:17 732:1 740:6 742:9 statement 600:20 610:14 630:3 637:4 677:19 724:8 745:7,19 784: 8 states 544:12 610:24 614:15 636: 24 639:13 661:8,17 682:15 703:6, 8 723:10 728:14 733:10 735:21,22 736:15 742:24 743:5 781:19 stating 636:10,16 738:14 station 646:15 stations 638:5,16 status 793:6 statutes 592:18 stay 711:11 757:2 step 772:23 steps 566:1 646:4 Stewart 776:1	stick 539:7 584:16 still 539:20 556:6 572:14 574:19 597:23 603:19 605:19 658:23 659: 17 678:16 729:25 738:23 stipulate 692:10 stop 600:7 728:7 stopped 637:8 storage 694:23 store 600:6 straightforward 737:18 strategic 673:5 strategy 784:6 street 641:3 698:1 strictly 552:18 563:6 614:24 653: 10 strike 558:6 710:11 structural 542:10 756:5 structure 548:20 617:14,17 641: 17 747:18 751:2,5 766:19 772:20 774:4 struggling 590:22 607:15 studies 554:6 579:15 581:11 623: 12 627:7 648:7 691:6,10 study 571:6,10,13 572:16 573:2,3, 18 576:15 580:7 584:6 589:10 686: 6 727:11 sub 584:20 586:3,6 subject 547:13 556:23 558:14,21 559:5,8 564:4,15,22 570:7 573:7 614:8,12 623:20 625:14 649:11 654:24 655:7 660:24 664:22 665: 15 670:2 671:11 681:15 684:4 726: 16 744:13 760:14 769:15 771:6 772:6,12 792:10 793:19,21 subjects 655:19 submitted 603:21 649:10 666:10, 18 667:9 691:7 subscribe 546:14 640:3,4 707:14 771:4 subscribed 546:17 775:3 776:11 subscriber 558:18 587:16,17 685: 23 703:17 774:2 subscribers 624:19,20 625:15 626:7,8 780:16 781:8,23 subscribing 770:12 subscription 724:7 770:12 subsequent 716:4 subsidiary 542:9 subsidiization 549:10,13,22,24 550:4,19 758:16 subsidiize 544:23 758:1 subsidiizing 544:17 subsidy 545:3 549:5 758:8,10,13 substantial 564:4 638:4 703:7 733:13 784:3 790:13 791:14 substantially 563:16,19 565:21 703:19 704:1,3 791:22 substantive 585:13,16 substitute 608:9,10 702:4 718:5,7 substituted 702:16 subtracting 751:24 subversion 639:22 succeeding 662:23 successful 788:6,8 Sue 658:16 659:14,15 suffered 652:11 sufficient 553:15 580:11 667:11 suggest 617:8 628:3 653:24 661: 24 662:5 683:21 759:23 suggested 653:15 suggesting 719:17,23 736:6 737:	10 738:24 739:1,9 suggestion 758:18,19 sum 717:13,17 718:2 summarize 619:17 superseded 566:21 574:4 supervision 574:12 575:22 615: 19,23 616:25 627:8,18 709:21 supplement 627:10,16 672:12 688:9 Supplemented 623:22 supplied 571:8 590:23 591:6 supply 590:25 725:12,13 supplying 726:17 support 574:7,12 610:13 690:19 691:7 732:20 736:25 743:3 762:17 782:21 supported 572:21 supporting 579:19 584:6 589:10 suppose 689:13 690:25 698:16,20 700:24 suppressed 609:14 surcharge 778:6,8 779:15 780:1 785:22 786:2 787:5 surprise 580:1 surprised 610:4 surrogate 702:3 survive 787:18 790:1 survived 789:24 surviving 787:17 sustain 677:22 sustained 611:12 swear 655:6 switch 631:14 638:10,13 647:22 705:19,22 707:13,18 switched 541:22 switching 545:22 631:13 664:10 sworn 539:22 540:6 709:3,12 765: 11,22 synonym 558:5 system 634:10 638:14,15,17,25 642:25 646:11,16 648:14 685:23 690:16 693:21 695:2 705:12,14,18 706:2 systems 638:18 642:21 643:9,23 644:9 683:19 691:16 705:11	Teitzel 537:8 538:23 539:16,18,19, 22 540:4,11 541:7 543:21 550:8 553:11 557:13 572:13 579:1,3 583: 2,13,20 586:17,24 596:10 597:11, 15 605:23 607:4 614:5 624:15 628: 24 637:20 643:20 644:12,25 654: 20 661:22 662:20 663:1 664:11 665:11 677:4,14,17 681:8 682:13, 17,23 686:15 692:19 701:12 708:8, 16,20 732:4 750:24 755:2 775:6 786:12 Teitzel's 550:1 664:18 677:16 755: 8 772:24 Telecom 540:15 678:21 780:14 Telecommunications 543:1 544: 2 572:25 632:3 670:7 678:24 679: 9 723:16 747:8 750:19,20 778:10 780:15,17,19 781:22,24 782:5,7,15, 25 telephone 542:1 546:10 548:19 597:23 601:20 609:22,24 633:19, 19,24 634:6,10 638:5 719:3 754: 21,22 755:12 756:10 758:2 759:1 761:25 769:24 telephones 541:9 546:9 611:8 telephony 684:24 685:4 tells 727:3 780:9 temporary 787:8,10 ten 689:10 695:13,15 701:7 722:5 725:14 727:20 729:21 748:6,12 tenant 678:6 tenants 695:7 tends 664:9 Tennessee 743:7,10,21 term 541:25 542:2 549:13,21,25 560:19,21,23 561:9,10,11,21 562: 22 563:19 569:14 570:3,5,12 585: 18 594:18 595:8 599:11 601:19 606:25 607:3,8,10 615:8 616:20 638:9 641:22 642:7,9 655:1 678:7, 14 691:21,22 703:11 755:14 787: 21,23 790:24 terminal 697:5 terminate 569:22 697:3 terminated 694:18 terminating 556:22 terms 563:2 571:15 587:18 607:17 642:11 658:18 663:21 673:15 682: 5,9 718:2 719:6,16 720:10 721:4 727:1 732:17 736:18 742:9 769:24 770:10 terribly 646:18 territory 609:21 778:2 test 552:5,9,13,17 553:12 554:5,22 555:4 559:24 560:3,9 565:12,15 566:17 568:21,24 569:10 570:9 584:8,15 591:12 592:14,17,20 593: 8,11,25 594:18 606:10 616:12,16, 25 617:7 731:12 732:10 744:21 745:1,4,21 748:7 755:23 testified 552:23,24 590:23,24 591: 2 593:6 608:5 612:5 619:25 620:6 623:10 630:22 631:8 635:5,11,19 639:15,16 656:18 662:19 664:11 676:16 677:7 682:14 685:21 690:4 696:3 704:18 705:1 707:9 testify 540:6 579:18 594:14 655: 11 709:12 765:22 783:14 testifying 654:21 tests 553:3 554:3 559:9 732:17 748:12
---	---	--	--

T

T-1 648:13 685:18,22 686:19 688:

18 689:1,1,8,17 690:9,11 691:25

693:5,11,13 694:20 695:8 697:8,

10,16 698:9,13 704:22 770:13

T-Is 690:10,15 696:1,16 697:2

table 538:22 658:11 773:18,19

Tacoma 653:4

talked 537:3 548:13 587:18 643:

22 695:10 759:9

tariff 554:23 555:7,8,9,21,25 556:

1 558:12,14 575:3 606:10 617:14,

22 618:1 641:19,19 643:12 703:15,

18,20 756:11,18,22 762:4 772:11,

15

tariffed 606:11 742:14 756:15

tariffing 618:4

tariffs 614:16 615:2 616:6 641:1

682:3 703:8 781:3 792:16

technical 602:12 695:25 696:15,

20,20

technically 698:12,16 772:15

technologies 648:18

technology 648:8 686:1,10 688:

23 689:17 693:19 695:16 705:4

Tedd 668:2

text 675:25
 Thanks 539:14 722:13 723:25
 themselves 547:23 635:20
 There's 536:13 542:11 544:11
 552:4 568:20,23 580:23 585:7,12,
 13,16 602:18 609:1,20 616:11 621:
 15 623:13 634:20 635:24 640:16
 642:22,24 644:4 653:16 657:18,24
 658:11 663:17 666:5 669:15,18
 690:22 696:9,11 697:5 698:2 720:
 8,21 721:6 722:4 725:8,9 744:6
 745:7 751:6 755:9 756:14 777:6
 786:24
 therefore 569:24 587:12 718:16
 739:19
 Thereupon 540:5 709:11 765:21
 they'll 660:16 761:4
 They've 747:19
 thinking 694:11,12,13
 third 616:10 693:11 729:14,18
 730:23
 though 664:4 697:7 722:10 759:
 19 787:2
 thousand 625:10 705:17 757:18
 thousands 649:13,13 655:2
 three 616:8 646:7 663:20 673:8
 681:19,25 684:1 690:10,12,15 703:
 4 745:3 771:1,3 782:11
 three-story 696:12
 threw 641:22
 thrust 597:18
 tie 559:11 572:9
 Timbukto 620:24 621:2
 tip 662:13
 tired 636:14 739:17
 title 751:7,8
 TLRIC 745:11
 today 578:24 591:5 607:9 610:13
 642:16 656:19 664:12 670:20 706:
 2,24 728:6 732:5 751:16 755:1
 792:18 793:10,13
 together 591:8 624:21 688:12
 toll 621:8 769:18
 tonight 749:9
 took 556:4 583:9 681:12 717:23
 769:21 786:25
 top 591:14 675:23,25 708:12 714:
 12 727:14 744:4,6
 total 554:16 559:14 586:10 595:2
 624:23 625:7,16 699:16,17 718:7,
 15,22 719:6,15,15 721:8 726:25
 727:4,23,24 728:6 729:17,19 730:
 2 743:3 746:4 770:2 772:8
 totally 553:1
 touched 547:4
 tough 672:22
 toward 720:14
 towards 678:24 703:4 706:4
 TRA 744:16,21
 track 775:7
 traditional 682:15
 traffic 555:1,4 575:4 611:7 703:
 17 704:12 770:3,6
 transaction 759:6,7
 transcript 562:2 651:23 665:13
 673:16
 transpired 583:7
 Transportation 681:17
 trend 727:9
 tried 662:13
 true 543:2 581:11 598:24 601:7

609:19,24 614:9 623:17 629:10,14,
 18 631:16 652:8,17 665:12 677:13
 681:16 687:19 724:15 731:13 734:
 16 740:24 742:2,21 743:12 750:10
 759:1 769:3,18
 truncated 766:23
 try 547:16 548:12 567:2 610:16
 628:19 651:14 665:9 666:7 683:13
 685:14 687:20 714:25 718:12 737:
 18 739:25 760:13 771:15
 trying 550:10 566:12 607:19 619:
 17 650:3 652:23,23 655:18,21 670:
 14 677:2 688:25 719:24 738:23
 747:25 757:17,19 770:14 773:17
 TSLRIC 554:17 559:11 572:21
 590:23 591:2,16 595:2 710:19 711:
 12 751:22 760:16 761:1,15 762:5
 turn 602:22 637:24 656:2 658:4
 669:5 673:7 675:22 679:13 683:15
 688:2 692:20,24 699:3 730:4 744:
 4 751:15 774:15,18 776:7 781:4
 783:24
 turns 781:12
 two 540:13 585:24 622:9 629:4
 630:22 639:5 671:4 686:18 688:12
 690:11 696:11 697:7 702:6 704:6
 706:6 721:6 737:4,5 766:13 786:6,
 18 788:15,18
 two-page 619:1
 two-story 695:24
 tying 664:22
 type 548:17 550:19 552:19 561:12,
 14 613:13 617:5 622:21 638:2,15
 639:25 647:12 648:13 660:8,13,19
 678:6 682:6 694:14,22 758:13 770:
 12 778:15
 types 577:13 602:6 618:19 620:19
 719:3
 typical 660:2,8 697:12,17
 typically 561:3,6 620:22 631:12,
 12 638:4 639:3 669:25 697:2,4,8,
 23,25 698:2 699:2 702:19
 typo 589:12

 U

U-N-E 706:11
 U.S 575:25 589:9 657:20,21 668:4
 673:3,6 682:15 702:3,4,6,8,10,12
 704:2,7 716:20 728:5 733:6,16
 735:21 776:4,12 778:2 788:13,22
 UC 776:1 777:10 779:1
 unable 766:15
 unanimously 745:11,20
 unbroken 698:7
 unbundle 751:11
 unbundled 614:17 615:3,8,9,19
 618:5 630:8 706:11,13 707:9,12,
 15 747:18 751:2,5,12 783:5,12
 unbundling 703:7 750:1 751:8
 uncomfortable 573:10
 under 539:20 547:6,6 551:14 557:
 23 558:4 561:19 594:18 612:21
 621:11,12 625:12 636:1 643:4 653:
 15 654:19 661:1,16 668:23 669:18
 670:15 677:8 703:6 704:7 709:20
 718:25 719:4 722:1 723:21 748:6
 749:3 750:12,18 762:24 773:24
 780:13 783:1 787:5,18
 underlying 579:5 602:11,12
 understand 536:11 538:10 542:
 20 548:11,13 554:15 560:3 574:22
 579:22 588:16 594:17 602:9,10

612:22 639:23 661:10 666:20 685:
 13 691:21,22 699:11,12,19 701:24
 702:12 703:11 714:25 718:18 719:
 24 721:1,3 727:17 736:5 737:6,14
 738:23 748:14 755:10 773:4
 understands 553:12
 understood 729:2
 UNE 613:8,9,13 630:11 707:16,21
 721:5 746:1 747:1,3
 UNE-P 683:18,22 684:1,6 706:8,
 10,11 707:10,16
 UNEs 630:8,13 632:22,24,25 633:
 4,13 635:20 636:1,20 719:6 721:7,
 11,16 745:6 783:12
 unit 612:12 659:5,16 694:23
 universal 583:9 587:5,11 592:5
 604:4 609:17 714:16 718:20 719:1,
 15,20 721:9,18 722:15,18 723:2,8,
 10,13,20 760:12 762:11,17
 unknown 729:22
 unless 539:24 627:24 693:10
 unquote 552:17
 unreasonable 763:17
 unrelated 639:1
 unrestricted 620:22
 unspecified 726:24
 until 567:25 656:19 693:15,24
 718:1 755:21
 unused 694:1,9
 unwieldy 566:20
 up 559:25 564:7,10 566:1 567:13
 568:2 583:2 586:18 603:11 612:6
 620:16,21 625:5 628:4,15 636:13
 637:9,10 641:23 664:23 666:8 667:
 7 683:17 685:8 708:18 717:24 718:
 1 721:12 729:23 735:20,23 736:16
 737:1 738:6 749:1 755:21 756:2
 758:6 761:14 764:2 771:16 787:12
 788:20,25 790:8 791:8 792:14 793:
 13
 update 538:1,12 539:15 711:1,5
 715:25 716:14,21
 updated 571:24 710:22 711:13
 714:13 715:14,20 716:2,23
 updates 714:9
 upheld 612:22
 upstairs 585:22 624:9
 usage 580:6,8,9,11 601:10 602:14,
 16,18 647:24 648:1 770:10
 user 555:9,15,16 556:20 620:16
 639:3 678:7 702:9 718:22 719:10,
 11 770:5,5,8,13
 users 546:22 547:3,8,21 548:3,4,
 25 621:16 638:13 639:1,1 669:22
 720:14
 uses 545:8 686:9 755:14 788:22
 USF 720:21
 using 539:6 542:2 549:24,25 563:
 2 570:5 608:3 625:14 675:6,12
 693:11 696:7 711:6
 USOC 617:15
 USW 657:18,22
 UT 536:4 557:23 568:8 575:18
 581:2 587:14 645:8 678:5 681:18
 700:2
 Utilities 681:17
 Utility 743:8 776:1 778:20,21

 V

vacation 536:17
 vague 546:24 549:13,20 563:19
 779:17

valorem 561:12,14
 variances 580:9,11
 variation 580:15
 variety 598:17 601:15 618:5 703:
 20 704:3
 various 549:22 618:19 693:19
 767:9 785:3
 Varma 759:15
 vault 697:24,25 698:4
 vehicle 675:7,19
 verbal 657:1
 verify 604:1 627:13
 version 537:24 538:7,10 546:9
 715:9,11 716:3 737:16 743:18,19,
 21 744:5
 versions 641:10
 versus 547:13 726:24 728:16 756:
 21 782:18
 via 638:8
 viability 786:25
 viable 774:6,7,17,20 782:19
 vice 659:7,15,21 660:15 793:6
 vicinity 693:6 694:13
 violating 758:16
 virtual 748:10
 virtually 631:11 700:4
 virtue 723:5
 voice 687:10,17 691:25 781:7,9,9,
 12 784:19,21 785:5
 volume 638:4 656:11 690:21 694:
 25 699:16,17 787:13
 voluminous 671:22
 voted 745:11,19

 W

W-o-o-d 709:6
 waiver 733:8
 waiving 650:17
 wall 788:19
 wanted 562:7 566:3,11 743:24
 771:8
 wanting 786:13
 wants 564:20
 Washington 625:16,19 648:24
 653:4,10 661:9,12 662:1 681:17
 682:2,7,19 683:3
 waste 662:8
 way 545:8 580:24,25 591:7 600:11
 613:10 621:5 626:3 628:13 633:16
 638:17 644:8 647:16 648:11 652:
 24 663:23 669:10 686:8 690:14,15
 694:7 695:18 698:18,22 699:2 704:
 9,14 707:11 720:6 721:11,14 742:
 25 749:11 755:14,15 761:16 769:
 20 774:13 777:1 786:15 787:15
 788:14,16,21
 ways 549:22 640:11 721:6
 web 743:22
 week 725:18
 weeks 610:22
 weight 654:9 664:17,21
 welcome 765:5
 West 575:25 589:9 657:20,21 668:
 4 673:3,6 682:15 702:3,4,6,8,10
 704:2,7 716:20 728:5 733:6 735:
 21 776:4,12 788:13,22
 West's 702:12 733:16 778:2
 Western 648:24
 whatever 552:21 585:16 589:2
 661:15 682:5 721:17
 whatsoever 585:13 786:24
 Whereas 639:2,24

wherever 641:24
whether 541:9 550:3 552:14 564:3 579:15 581:11 584:5 592:10,13 594:14 617:21,22 620:4 628:5 629:5,18 631:3,8,21 636:21 645:3 647:20 658:23 659:16 678:13 679:3 690:24 717:3 723:20 727:6 743:1 758:10 783:3 788:18 793:8
who's 711:15
Whoever 656:1
whole 619:12
wholesale 562:13 613:8 630:5,6,11,12 632:16,18 722:1 780:15 781:21 782:4,20 783:1
wholly 678:21
widespread 544:9
wildly 790:4
will 536:10,11 537:8 541:13,24 542:14 544:24 547:20 548:12 554:10 558:14 559:3,5,22 564:15 565:1 566:10 587:10 591:14 594:22 596:9 598:16,24 599:3,9 606:22 609:8,14 612:6 614:8 617:11 623:21 624:2,8 630:18 639:2,22 648:8 652:4 653:17,25 654:1,24,25 655:13 664:5 665:3 666:4,24 670:6 672:2 673:16 681:15 683:6,7,10 684:4 685:19 696:25 703:6 714:11 721:10 734:23 749:11 751:2 768:3 769:15 772:11,13 779:4,13 782:12 783:21 784:17,24
willing 547:16 549:7 550:16 660:24 692:9
wire 633:19 634:3 699:17 767:11
Wisconsin 611:15,20,23 612:22 613:10 653:13,18 759:10,12,24 760:2,3
wish 540:19 565:10 588:17 589:7 623:19 624:10 626:13,24
wishes 589:2 655:8 771:3
withdraw 551:3 559:18 573:11 577:2 626:2 647:15 777:15
withdrawn 574:20
within 597:22 603:16 638:14 725:14 756:3
without 549:9 569:19 580:7 603:11 605:24 619:12 650:17 663:5 682:10 700:12 782:21 785:22 786:1 790:1
witnesses 537:12 793:13
wondered 637:25
wondering 741:24
Wood 538:20,21 541:25 611:15 626:1 708:25 709:6,10,16 710:4 714:17,23 724:1 725:22 730:18 757:24 760:12 762:10 764:20,25
Wood's 543:9 614:1 710:1
word 588:22 630:12 741:21 769:23 783:9
wording 550:15
words 560:7 562:14 581:7 610:23 620:21 718:19 763:15 769:22
work 554:6 575:18 584:6 589:10 618:20 666:7 678:18,19,19 764:15 788:17
worked 659:25
working 554:2
works 619:18
world 757:3,6
WorldCom 536:5,6,23 537:1,2
wrap 628:15 793:13

writing 660:16
written 590:12 759:13,17 774:19
wrote 591:9 759:18

X

XXXXXXXXXXXXXXXXXXXX
 XX 663:16
 XXXXXXXXXXXXXXXXXXXX
 XXXX 681:5
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXX 726:12 763:24
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXX 714:4
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXX 675:2 754:8
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXXXXXXXXXXXXXXX
 XXXXXXX 663:14 673:18 726:4

Y

year 556:12 564:20 605:8 727:20 728:5 773:4
years 580:23 583:8 639:15 658:24 668:14 673:2 724:3,17 726:21 727:12 733:15 748:6,12 764:15 782:11 789:6,10,25 790:1
yellow 658:7
yesterday 538:8
yield 686:20 687:22 763:15
yourself 593:14

Z

zero 741:17,21 746:10,13 785:1
Zone 792:5
zones 592:7 714:15