

MINUTES OF THE MEETING
BUSINESS & INDUSTRY COMMITTEE
MONTANA STATE SENATE

March 14, 1985

The thirty-eighth meeting of the Business & Industry Committee met on March 14, 1985 at 10 a.m. in Room 410. The meeting was called to order by Chairman Mike Halligan.

ROLL CALL: All committee members were present.

CONSIDERATION OF HOUSE BILL 852: Representative John Harp, House District #7, Flathead, is the chief sponsor of this bill which provides for an exemption for certain persons from regulation as a public utility. It is basically a financing tool that will allow a utility to utilize an investment group to purchase interest in a utility, invest this and would eventually be leased back to the utility. The PSC would be involved in the definition of the person being exempted and make sure that any regulations as far as interstate activities would be governed by the PSC and any out of state activities would be governed by the FIRC. It would expedite the current problems Montana Power is having with Colstrip 4.

PROPOSERS: Bob Gannon, Vice-President and General Counsel for Montana Power, feels this bill is necessary because of Colstrip #4 which has power that will not be needed until the early 1990's. It had been anticipated that there would be a substantial load come on line at that time but since the closure of Ananconda's smelter and in Butte this power will no longer be necessary and there will be an excess that they feel could now be marketed to out of state utilities. Because of federal tax regulations relating to investment tax credits and accelerated depreciation they feel an outside investor with substantial income could take advantage of this situation and by doing so it would help to reduce the cost of mill power. Montana law currently has a very broad definition of investors and they could therefore become a public utility and because of this it has kept potential investors away. This bill would help clarify this situation. He noted that in a transaction such as this, that the person investing would still be subject to the rate regulations of the PSC or the federal regulatory commission.

Opal Winebrenner, Attorney with the PSC, stated they have been working with Montana Power on this bill and feel the exemption being proposed is what is necessary and supports the bill.

Jim Payne, from the Counsumer Council Office, also supports the bill. It would assure potential investors that they would not become regulated utilities and allow them to obtain financing while still keeping the PSC involved. They are in support of the measure.

OPPONENTS: There were none.

Questions were then called for from the committee members. Senator Weeding wondered if Montana Power was in a position to be able to

utilize this type of tax credit. Bob Gannon explained they were not able to do so because of their financial situation. Senator Gage wondered if they had checked out leasing the plant as opposed to leasing with an option to buy. He explained that the federal laws on leasing are very strict and Montana Power will be able to retain the option of being able to buy back the facilities in 25 years at a fair market value. Senator Boylan wondered if this would end up the same as a holding company. Bob Gannon felt it was not the same. Senator Christiaens wondered if it was an open end lease. Bob Gannon explained it is a lease with the ability to acquire the assets at the end of 25 years at a fair market value. Senator Williams wondered if this could possibly lower rates per kilowatt hour and was told it possibly could. Senator Thayer asked about the tax credit and was told it was a 15 year depreciation accelerated for 15 years on approximately \$300 million. The hearing was closed by Representative Harp on House Bill 852.

DISPOSITION OF HOUSE BILL 852: Senator Goodover MOVED THAT HOUSE BILL 852 BE CONCURRED IN. The motion carried. Senator Jacobson will carry the bill on the Senate floor.

CONSIDERATION OF HOUSE BILL 380 and 577: Representative Dorothy Bradley, House District #79 of Bozeman, is the chief sponsor of these two bills. She explained the Consumer Council, AT & T and Mountain Bell have all joined together to draft these measures. She gave a brief history of the telecommunications industry. She noted that a nationwide communications system has been created through a regulated monopoly so that one entity was guaranteed all of the business in return for government regulations and then a ceiling was put on the profits. Some twenty years ago there were some who felt they wanted to enter into the market also. A seven year antitrust suit followed and some new federal regulations were passed. This allowed AT & T out of their "fence" and allowed other kinds of competition to enter into the market. Mountain Bell is now a separate entity from A T & T. Montana is susceptible to the problems because of there being no requirement for a certificate of public convenience and necessity so a competitor can just move in. Montana is divided into two areas called LATTAs and this just means that when a phone call crosses over this line that A T & T is entitled to that business and this is the reason you are billed separately when a call crosses that line. With the present situation anyone can come in and make a long distance trunk line and "skim off the cream" where there is a high volume. Mountain Bell feels they are at a disadvantage because they are required to serve all the local exchanges. These competitors can charge cheaper long distance rates and they still have their fixed costs and would be left dividing up the rates with fewer customers. The coops are in somewhat the same situation. House Bill 577 moves away from regulated monopolies and into more competitive markets. It would just give clarification of what is regulated and what is not. Private telecommunications are not regulated nor are resales. The bill would provide that before you can provide regulated service you have to file a notice with the PSC. Cross-subsidization would be prohibited and clarified in the bill. The PSC would be allowed to tariff or detariff rates. She noted that this is different than

deregulation because the PSC still retains different areas of authority. It does allow competition of rates however.

House Bill 380 deals with coops. In present law they would not duplicate the areas that Mountain Bell had already but this would free them up so they can compete with the rest of the competition. If you live in a city you might be able to benefit from the competition but for many others in rural areas especially she feels the rates are going to keep going up. She hopes by allowing some flexibility this will compensate.

Some of the arguments that MCI and SPRINT have raised include that they would like to postpone the time for detariffing because it would give them more time to become established. They fear predatory pricing from the giants. She felt though that detariffing would be to their advantage. Predatory pricing is not legal anyway. The PSC will see that this does not happen.

Another argument is that there is no criteria for detariffing. She felt the legislature was not the body to decide that and felt this should lie with the PSC. She felt if the state waits for two more years it would just tie the hands of Mountain Bell and she felt the consumers will be hurt. She felt the amendments being proposed in the legislation by MCI would put Mountain Bell at a disadvantage and if we want competition we should not tie the hands of one or the other.

PROPOSERS: Joan Mandeville, of Helena, representing PSC, feels it has come to the point that a rewrite of legislation is necessary. The bill would assure that a continued role will be played by the PSC and provide regulation as a transition to a fully competitive industry. It would define what needs to be regulated and provide needed regulatory flexibility. (EXHIBIT 1) She explained that the amendment proposed would just strike the word "fully" before compensatory on page 5, line 24. (EXHIBIT 2)

Jim Hughes, Mountain Bell, gave an overview of what is happening today in the industry. He noted the services they used to provide and what they provide today since divestiture. They are now primarily a local service company. He noted that the LATTA division in the state only serves one purpose and that is to inhibit Mountain Bell from providing service between the two areas. He gave an explanation of the regulatory balancing act where you raise the prices in one area to compensate for costs in another area. The competition for business is really in the long distance service and private lines areas. They would like to see fair play and see some flexibility for their company also. He felt residential rates are going to have to go up to what they actually cost eventually. MCI and SPRINT are just two of the entities trying to get long distance customers. The way the present law stands, Mountain Bell just cannot compete. There have been some real compromises made to resolve this dilemma.

Jim Payne, Montana Consumer Council, feels if this legislation passes every time a regulated telephone agency came before them they would be checked out closely and if there was a disagreement on costs,

they would propose an adjustment be made. They are in favor of this legislation.

Jay Down, representing the telephone cooperatives, and John Scully representing A T & T were present also and in support of the legislation.

OPPONENTS: Woodside Wright, speaking on behalf of GTE SPRINT, disagrees with the legislation proposed. They feel that House Bill 577 will recreate the monopoly without regulatory oversight and would result in the prevention of Montana citizens from receiving competitive low cost long distance rates. They feel that an interim study should be done instead. (EXHIBIT 3) He felt the statute grants rulemaking authority and felt some guidelines should be established beforehand. He feels there is no effective method of challenge. He felt money could be better spent in developing good services rather than fighting an antitrust suit. He urged consideration of questions on his handout before consideration.

Mary Bulkley, with the West Division of MCI Telecommunications Corporation, distributed a copy of her testimony, some newspaper clippings, a chart of how MCI provides long distance service and some amendments they would like proposed to House Bill 577.

She noted MCI has no monopoly offerings or other sources of market power. She felt that this bill would attempt to regulate all services in the same manner and they feel they lack the power to participate in the behavior that causes regulation to be necessary. She thinks the bill is just too broad to prevent potential market power abuses and does not give the commission clear guidance as to how policy should be addressed. (EXHIBIT 4) She explained they have no network established yet in the state and would be at a disadvantage until they were established.

Questions were then asked from the committee members. Senator Weeding asked Jay Down from the rural cooperatives to respond. He noted they had suggested 12 changes and all of these had been incorporated into the bill. He felt it was time for everyone to be deregulated. Senator Goodover asked about the proposed amendments of MCI and Representative Bradley stated she opposed all of these. Senator Gage wondered if a company could hook up a line in his private home and be regulated. Larry Huss, from Mountain Bell, stated the purpose of the language is for when service is offered to a third party, then it is considered a public network and this would then be regulated. A business phone in a private home would not be under regulations. An entity could have a private and a resale facility in one location.

Senator Gage wondered what the criteria would be for making the decision that it was time for an alternative. Rep. Bradley explained this would be under the rulemaking authority by the PSC.

Senator Fuller asked Mary Bulkley what a network was and was told it was the microwave, fibrotics, and any other combination they choose to set up a network.

Senator Fuller asked Joan Mandeville what the impact of a delay would be. She claimed people are building their own systems already and she feels that a very small number of customers are making up a large portion of the total revenues and if the companies such as MCI and SPRING take away the bulk of the large volume customers it would severely impact the costs to those customers remaining. Jim Payne expressed concern in this regard also.

Senator Goodover asked Larry Huss to respond. He noted that MCI's views on fairness are very different than what Mountain Bell feels is fair. He left a transcript of hearings before the public utilities in Colorado. (EXHIBIT 5) They do not care what the costs are to put in a system and there is no way to note from their records whether or not the rates they are charging are being used to subsidize another area's rates.

Senator Boylan wondered how many FTE's this might involve if this legislation were to pass in the PSC. Joan Mandeville stated they had not done a fiscal note but did not anticipate putting on any additional staff.

Senator Thayer wondered about skimming off the high volume customers and Woodside Wright's comment that their customers were mostly rural customers. He did not know how this percentage had been calculated. Senator Christiaens wanted an explanation of the need for a certificate of necessity. Joan Mandeville explained several states have these and they decided it was better for the customer to have competition in certain areas and we do not have this option. Jim Hughes noted that Mountain Bell would welcome competition however.

Mary Bulkley noted they only deal with long distance service. They have cheaper rates because they have a poorer quality line to access and therefore can charge cheaper rates.


Senator Weeding wondered if the cooperatives were seeking to develop long distance lines also and they stated they were not. They just want to be able to serve their customers more inexpensively. Senator Gage asked about forbearance and was told this only applies to rates. Rep. Bradley felt that Montana has been forced into competition and feels the amendments proposed by MCI would stifle competition. She feels we need to be fair to all parties involved. The hearing was closed on House Bills 380 and 577.

DISPOSITION OF HOUSE BILL 380: Senator Goodover MOVED THAT HOUSE Bill 380 BE CONCURRED IN. The motion carried. Senator Haffey will carry the bill on the Senate floor.

CONSIDERATION OF SENATE BILL 391: Senator Christiaens reported on progress of the subcommittee. He stated John LaFaver was going to put together some revenue figures for the committee. John Poston also has a "weekender" video machine available for review.

CONSIDERATION OF SENATE BILL 602: Mary McCue, Staff Attorney for Legislative Council, stated the amendment proposed would just say exhibition or sale of artwork and clarify a person regularly engaged in sale of artworks. Senator Goodover wondered if it was not your primary business if you would fall under this category also. Senator Christiaens was also concerned. It was felt it would be worse if you did not put in the word regularly. The artist needs some assurance that if they leave artwork with someone they will be paid for it. Final disposition was put off after a short discussion.

The meeting was adjourned at 12 noon.



MIKE HALLIGAN, Chairman

cd

ROLL CALL

BUSINESS & INDUSTRY COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date 3/14/85

SENATE
SENT

NAME	PRESENT	ABSENT	EXCUSED
Chairman Halligan	X		
V-chrn. Christiaens	X		
Senator Boylan	X		
Senator Fuller	X		
Senator Gage	X		
Senator Goodover	X		
Senator Kolstad	X		
Senator Neuman	X		
Senator Thayer	X		
Senator Williams	X		
Senator Weeding	X		

Each day attach to minutes.

DATE _____

COMMITTEE ON Business & IndustryMarch 14, 1995

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Linda Adams	AT&T	HB 577	✓	
James Paine	MT. Cons. Council	HB 577 HB 577	✓	
Bruce Stroughn	Western Tele-Communications	HB 577		
John R. Duffville	MT. PSC	HB 577	✓	
Bob Hammond	Mount Power	HB 852	✓	
W. J. M. ...	CTF Sprint	HB 577		✓
John W. ...	MT. PSC	HB 852	✓	
Joe Jones	MT. Bell	HB 577	X	
Thomas Buckler	MCI	HB 577		X
Leif ...	MCI			
Dave Brown	NPRC	HB 852		
John ...	MT Dept of Ad.	HB 577		
Jack ...	MT Elec & Tel. Cooperative	HB 577 HB 330	✓ ✓	
John Scully	AT&T	577	✓	
Jan Johnson				
Evelyn Tomlay				
Susan Chapel				

(Please leave prepared statement with Secretary)

NAME: JOAN MANDEVILLE DATE: 3/14/85

ADDRESS: 2701 PROSPECT AVE. HELENA, MT 59620

PHONE: 444-6181

REPRESENTING WHOM? MT PUBLIC SERVICE COMMISSION

APPEARING ON WHICH PROPOSAL: HB 577

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: PREPARED STATEMENT SUBMITTED

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

TESTIMONY OF THE MONTANA PUBLIC SERVICE COMMISSION
IN SUPPORT OF H.B. 577

The Montana Public Service Commission requested that H.B. 577 be introduced because the Commission believes that the point has been reached in the evolution of telecommunications in Montana where a rewrite of the telecommunications statutes is required if the people of Montana are to participate in the benefits of competition in the industry. Nonetheless, H.B. 577 should not be perceived as a "competition at any cost" bill. The bill recognizes a continued role to be played by the Commission and regulation as a transition is made toward a fully competitive industry.

As is stated in Section 2, the overriding purpose of the bill is to maintain the universal availability of basic telephone service at affordable rates. Only if it can exist without jeopardizing that purpose will the bill allow untariffed competition in the provision of basic telephone service.

One of the major functions of the bill is to redefine what it is that the Commission is to regulate. The bill provides a much narrower scope of regulation than is present in the current law. The current law regulates many services that would not continue to be regulated under H.B. 577. Examples of these services include: radio common carrier and paging services, cellular mobile services, customer owned coin telephones, hotel and motel services, telephone answering services, WATS resale, and private line services. The Commission believes that these types of services need not continue to be regulated for several reasons.

Many of these services came about long after the current law was originally enacted in 1913. Therefore it is questionable whether the legislature ever intended that they be regulated. These services are for the most part highly competitive. There are sufficient market forces present that regulatory oversight is not necessary to protect consumers. By ceasing to regulate these services the Commission can refocus its regulatory resources on the area of basic telephone service. Regulatory effort can be better spent on basic services because this is the area most vital to the needs of the people and the most likely to be provided on a monopoly basis.

A second function of the bill is to provide needed regulatory flexibility. Competitive situations are arising even in the area of basic telephone service. H.B. 577 would allow the Commission to evaluate whether such competition is at a level sufficient that market forces will protect consumer interests in lieu of total rate regulation. If the Commission determines this to be the case in a particular market, the bill would authorize detariffing or the setting of permissible price ranges.

Under the bill the Commission would continue to exercise total rate regulation where a monopoly still exists in the provision of basic telephone service. The bill further provides that the Commission is responsible for assuring that telephone companies do not subsidize competitive activities with revenues from monopoly services.

In summary the Commission believes that H.B. 577 would allow a focusing of regulation in the area where it is really needed and will facilitate the withdrawal of regulatory oversight in favor of healthy competition where appropriate.

HOUSE BILL NO. 577

THIRD READING COPY

1. Page 5, line 24

Preceding; "Compensatory"

Strike: "Fully"

NAME: Joody Wright DATE: 14 Mar 85

ADDRESS: Box 1242 Va.

PHONE: 249 6077

REPRESENTING WHOM? CTE Sprint

APPEARING ON WHICH PROPOSAL: 403577

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE?

COMMENTS: submitted

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

HB 577
TESTIMONY OF F. WOODSIDE WRIGHT
ON BEHALF OF GTE SPRINT
BEFORE THE MONTANA STATE LEGISLATURE
SENATE BUSINESS & INDUSTRY COMMITTEE
March 14, 1985

Good morning Mr. Chairman and members of the Committee. My name is F. Woodside Wright. I appear here today on behalf GTE SPRINT. Kurt Furst, the Regional Manager of State Legislative Affairs for GTE SPRINT was unable to be here this morning. I appreciate this opportunity to appear before the Committee to highlight for you some of SPRINT's views on a different, and we believe, better, method towards achieving an orderly transition to full and fair competition in the telecommunications industry.

SPRINT is a long distance telephone company which serves more than a million customers in homes and businesses nationwide. It has provided these services over the last 12 years. Sprint's services are available in over 360 metropolitan areas in the United States and SPRINT interstate calls may be made to any telephone in the country. The vast majority of Sprint customers are residential. To date, SPRINT has not sought authority to offer service in Montana.

In Sprint's opinion, HB 577 will recreate the monopoly in Montana without regulatory oversight. There is no competition in Montana's intrastate toll market today. Consequently, HB 577 authorizes deregulation of a monopoly into an area with no competition. The net effect of this bill will be prevention of Montana citizens from receiving competitive low cost long distance service.

HB 577 contains several positive features. The features as shown in provisions other than sections 7 & 8 are of no cause for concern to SPRINT. These other sections reflect the Public Service Commission need to clarify outmoded statutes. However, Sprint believes that sections 7 & 8 represent an overly broad and at this time unnecessary rush to deregulation.

With 3% of the market, Sprint is the third largest provider of long distance service in the nation. MCI is the second largest. These companies are not in Montana. This rush to deregulate the monopoly will destroy the development of competitive long distance telecommunications in this state.

It is reasonable that an interim study of sections 7 & 8 would be a better, more orderly approach to the deregulation in the wake of the AT&T divestiture. An interim study would allow the considered input of the legislature and the early input of long distance low cost competitors such as Sprint and MCI. To date the only forum for these companies to present their view points has been the House hearing on this bill.

Today--as a result of the AT&T breakup--there is more consideration of telecommunications issues by state legislatures than ever before in the history of this country. HB 577 is a dramatic change to current policy in Montana. The legislation was drafted and introduced without input of GTE Sprint. If the purpose is to prevent Sprint and other long distance carriers from coming to Montana and offering low cost service to citizens of Montana, then HB 577 is ready for action. If the purpose of this legislation is to encourage competition, the legislature should study in detail the impact of sections 7 & 8.

In conclusion, would you as a committee ask the proponents of this legislation to respond to the list of questions before you vote on HB 577.

Thank you for this opportunity to address you on this most important piece of telecommunications legislation.

Questions on HB 577

- * Will passage of HB 577 keep local rates from rising?
- * What specific individual or company in Montana has bypassed Mountain Bell or AT&T because they have received a competition offer for long distance services?
- * Why isn't a study of sections 7 & 8 a reasonable step in deregulating portions of the telecommunications industry?
- * How would Sprint, or another carrier appeal a decision to forbear from competition?
- * Why have resellers been exempted from the legislation?
- * Will rural areas pay the price when Mountain Bell or AT&T cuts costs to compete in urban areas?
- * Would the Public Service Commission agree to delay implementation of sections 7 & 8 until there is a clear determination that there is effective competition in the Montana intrastate market?

MCI Telecommunications
Corporation

West Division
707 17th Street
Suite 4200
Denver, Colorado 80202
303 294 0005

MCI

Testimony of Mary Buckley for MCI on HB 577

Thank you Mr. Chairman for the opportunity to share our concerns with you regarding HB 577. I am Mary Buckley with the West Division of MCI Telecommunications Corporation. Before I begin my testimony, I would like to express my appreciation to Representative Bradley and the Public Service Commission for their dedicated effort towards adapting Montana's telecommunication law to the rapid changes taking place in this industry. These issues are very new to the states and are extremely complicated.

The direction toward a lessening of the regulatory burden is one that MCI supports wholeheartedly. While HB 577 suggests a recognition of need for new laws in light of the rapid changes taking place today in the telecommunications industry, we feel it stops short of encouraging true and effective competition.

Traditional regulation was intended to protect consumers from abuses of market power such as overcharging and price discrimination. MCI does not possess market power, so it does not have the potential to harm consumers.

Traditional regulation was based upon the assumption that telephone companies were monopolies with substantial market power including the ability to raise prices, substantially above costs in some or all markets without fear that new companies would enter the market and take customers away. Because competitive alternatives did not exist, consumers did not have a choice. They were captive of the monopoly. Consequently, regulation was turned to as a means of protecting these consumers.

Legislators feared that telephone companies might use their monopoly power to set prices substantially above the costs of providing the service. They also feared that these companies would engage in unfair price discrimination against certain customers and potential competitors, or even provide no service or poor quality service to certain customers in an arbitrary manner.

To guard against such possible abuses, traditional telephone regulation came to include regulation of the company's rate of return, specific rates and other tariff conditions, as well as control over entry and expansion of service, among many other items.

MCI and other companies similar to MCI have no monopoly offerings or other sources of market power. We, therefore, lack the market power that would permit us to engage in the kind of behavior that led to the adoption of regulation in the first place.

HB 577 attempts to regulate all services in the same manner. Regulations intended to protect consumers from the abuse of market power can only be successful if directed at the conditions of those firms that have market power. When there are competitive

alternatives and a firm lacks substantial market power, forces in the market itself will prevent the firm from being successful if it attempts to raise prices to earn monopoly-type profits or tries to engage in price discrimination. Thus, traditional regulation of companies like MCI is unnecessary because market forces alone will effectively restrain the firm's behavior.

Again, this bill looks only at service market areas, not companies. It is companies, not market areas, that have market power.

Further, monopoly companies may serve rotary dial customers, and the superior technical quality of their interconnections means that they are able to serve more customers on any route, and are better able to take advantage of any economies of scale that may exist more rapidly than a company such as MCI. This can work to keep companies like MCI out of some thin routes altogether until they have equal access. Thus, a monopoly company could use its market power, if allowed to deaverage rates geographically, to overcharge customers on thin routes while charging lower prices on more dense routes.

MCI feels that the monopoly companies should be regulated as they have been until equal access is fully implemented and until all of the necessary provisions are made to prevent it from using its monopoly local exchange services to subsidize competitive toll services.

While HB 577 clearly attempts to address changes needed in Montana's telecommunications law, we feel it is too broad to prevent potential market power abuses and does not provide the Commission with clear guidance as to how the intended policy should be addressed. There are amendments, and explanations of these amendments, in front of you that we feel provide some of the necessary guidance to begin the transition to competition.

I am available for any questions you may have and thank you for the opportunity to speak to you today.

W.P. 1-21-85, p 6

US West Earnings Were \$253 Million In Fourth Quarter

By Wall Street Journal Staff Reporter

DENVER—US West Inc. said it earned \$253 million, or \$2.62 a share, in the fourth quarter on revenue of \$1.88 billion.

The company said profit was especially strong from the use of its local telephone lines by such long-distance carriers as American Telephone & Telegraph Co. and MCI Communications Corp.

Year-earlier comparisons weren't available because US West didn't begin operating as an independent company until Jan. 1, 1984, when the break-up of AT&T became effective.

"It was an extremely strong quarter," said Brad Peery, chairman of Hicks Peery

Inc., a San Francisco investment banking concern. Mr. Peery estimated that nonrecurring items accounted for about 12 cents a share of net income for the quarter. Chief among those items were a gain of about \$5 million on goodwill and a credit of about \$4 million from a research group formed by former Bell units, he said.

US West also trimmed its work force in 1984 by 3,800 workers, to about 62,300, and cut maintenance costs more than expected by installing improved switching equipment, analysts said.

For the year, US West had net income of \$887 million, or \$9.24 a share, on revenue of \$7.3 billion.

NyT 1-19-85 p. 33

US West

US West Inc., the regional telephone company, yesterday reported fourth-quarter earnings of \$253 million, or \$2.62 a share, on sales of \$1.9 billion.

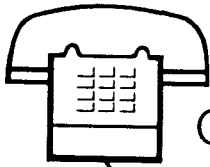
Earnings of the company, which was created last January, have been increasing on a quarter-to-quarter basis. In the third quarter, US West earned \$228 million, or \$2.39 a share, on revenues of \$1.86 billion.

Jack A. Macallister, the chief executive of US West, said the company continued to benefit from cost cutting. But he said 1984 revenues of \$7.3 billion were below forecast because higher so-called access charges paid by long-distance companies to US West were instituted later than anticipated. The company's full-year earnings were \$887 million, or \$9.24 a share.

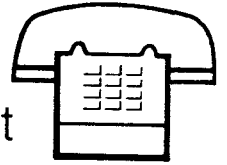
HOW MCI PROVIDES LONG DISTANCE SERVICE

MCI Subscriber

**Distant City
Number Dialed**



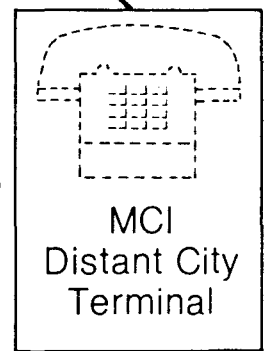
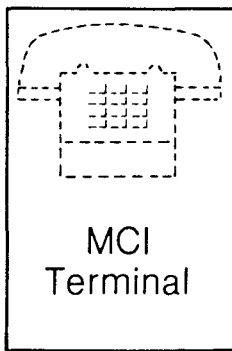
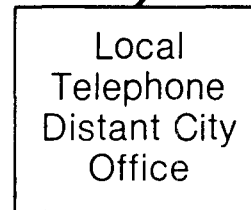
Originating Point



Terminating Point

**MCI Pays
Local Access
Charges**

**MCI Pays
Local Access
Charges**



MCI Intercity
Microwave
Network

MCI Capital Expense/Outlay

**MCI Pays Revenues
To State/Local Coiffers**

AMENDMENTS TO HB 577

1) Page 3, line 12

Following:
Insert:

"subject to regulation."

"(5) °Telecommunications company' includes every corporation, company, association, joint stock association, partnership and person, their lessees, trustees or receivers appointed by any court whatsoever, and every city or town owning, operating or managing any facilities used to provide telecommunications for hire, sale or resale to the general public within this state."

2) Page 4, line 22

Following:
Delete:
Insert:

"are"

"not regulated"

"competitive"

3) Page 4, Section 6, line 23

Following:
Delete:
Insert:

"with services"

"not regulated"

"competitive"

4) Page 5, line 14

Following:
Insert:

"of this state."

"In determining such terms and conditions, the commission shall first determine whether such service is subject to effective competition. Effective competition means that customers of the service have reasonably available alternatives and the service is not provided to a captive customer base. In determining whether a service is competitive, factors the commission shall consider include but are not limited to:

(a) The number and size of alternative providers of service;

(b) The extent to which services are available from alternative providers in the relevant market;

(c) The ability of alternative providers to make functionally equivalent or substitute services readily available at competitive rates, terms and conditions; and

(d) Other indicators of market power, which may include market share, growth in market share, ease of entry, and the affiliation of providers of services."

- 5) Page 5, line 14
Following: "of this state"
Delete: "The commission is not required to fix and determine specific rates, tariffs, or fares for the service and in lieu thereof may:"
Insert new paragraph
" (3) When the commission finds that a telecommunications company has demonstrated that a telecommunications service is competitive, the commission may:"
- 6) Page 6, line 2
Delete: "(3)"
Insert: "(4)"
- 7) Page 6, line 3
Following: "services"
Insert: "that are similarly situated"
- 8) Page 7, lines 4 & 5
Following: "offer"
Delete: "but may not require information relating to the cost of providing such service"
Insert: "including the cost of providing such service to the customer."
- 9) Page 7, line 22
Following: "approved by the"
Delete: "commission."
Insert: "commission, provided that any costs incurred in fulfilling the terms of a competitive contract may not be recovered from the regulated rate base."
- 10) Page 8, line 8
Following: "the commission."
Insert new paragraph:
" (8) Revenues and expenses resulting from in the providing of services under this section shall not be attributed to or be subsidized by services that are competitive."

EXPLANATION OF AMENDMENTS TO HB 577

- 1) Amendment 1 is offered to provide a definition of a telecommunications company. This bill is completely service-oriented, with no clear indication that the PSC retains control or oversight any of the companies offering services. Because subsequent amendments reference telecommunications company, we felt it necessary to provide a definition for such references. We do not intend that resellers or rural co-operatives fall under this definition.
- 2) Amendments 2 and 3 provide a delineation between regulated and competitive services. Under the definition at paragraph 3 of Section 3, all services remain regulated under this bill. Thus, the cross-subsidization language is ineffective if it attempts to separate services which are regulated and services which are not regulated. Substituting "competitive" for "not regulated" clarifies the issue at which this entire section is directed. i.e. preventing cross-subsidization between fully regulated services such as local service and competitive services such as long distance.
- 3) Amendment 4 provides guidelines for the Commission to follow when deciding to detariff a service. The way the bill is currently written, the discretion is left entirely up to the commission, with no statutory trigger mechanisms, as to when and how Section 7 takes affected. If the purpose of the bill is to "further the policy of this state to encourage competition in the telecommunications industry", then the legislature should provide guidelines for that policy to ensure that the commission is able to fulfill this intent. The guidelines offered here are not restrictive in any way, and are structured to ensure that the consumers do have viable choices in the services being offered.
- 4) Amendment 5 is a restructuring of the current language to provide a trigger mechanism for commission action, after the guidelines in Amendment 4 have been considered.
- 5) Amendment 6 provides a renumbering of the paragraphs in Section 7 to separate the standards or guidelines and the action following consideration of the standards.
- 6) Amendment 7 clarifies how regulations will be applied to the various companies offering services. It provides that monopoly companies will be regulated as all other monopoly companies and competitive companies will be regulated as all other competitive companies.
- 7) Amendment 8 ensures that the commission may gather information relating to the cost of the contract in question. Without such language, the cross-subsidization language in Section 6 is completely ineffective.
- 8) Amendments 9 and 10 provide additional language toward the prevention of cross-subsidization. This language prevents the underpricing of competitive contracts and subsequent cost recovery from fully regulated services.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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IN THE MATTER OF THE APPLICATION)
OF GTE SPRINT COMMUNICATIONS)
CORPORATION FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY TO)
OFFER INTERCITY TELECOMMUNICATIONS)
SERVICES TO THE PUBLIC IN THE)
STATE OF COLORADO AND FOR THE)
ESTABLISHMENT OF INITIAL RATES.)

Application No. 36360

IN THE MATTER OF THE APPLICATION)
OF MCI TELECOMMUNICATIONS)
CORPORATION FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
TO OFFER INTRASTATE)
TELECOMMUNICATIONS SERVICES TO THE)
PUBLIC IN THE STATE OF COLORADO.)

Application No. 36337

IN THE MATTER OF THE APPLICATION)
OF MCI TELECOMMUNICATIONS)
CORPORATION FOR TEMPORARY AUTHORITY)
TO OFFER INTRASTATE)
TELECOMMUNICATIONS SERVICES TO THE)
PUBLIC IN THE STATE OF COLORADO.)

Application No. 36338-TA

IN THE MATTER OF THE APPLICATION OF)
GTE SPRINT COMMUNICATIONS)
CORPORATION FOR TEMPORARY AUTHORITY)
TO OFFER INTERCITY INTERLATA)
TELECOMMUNICATIONS SERVICES TO THE)
PUBLIC IN THE STATE OF COLORADO.)

Application No. 36448-TA

IN THE MATTER OF THE APPLICATION OF)
THE WESTERN UNION TELEGRAPH COMPANY)
FOR AUTHORITY TO PROVIDE)
INTEREXCHANGE SWITCHED VOICE)
TELECOMMUNICATIONS SERVICE ON AN)
INTERLATA BASIS IN THE STATE OF)
COLORADO.)

Application No. 36456

IN THE MATTER OF THE APPLICATION OF)
THE WESTERN UNION TELEGRAPH COMPANY)
FOR TEMPORARY AUTHORITY TO PROVIDE)
INTEREXCHANGE SWITCHED VOICE)
TELECOMMUNICATIONS SERVICE ON AN)
INTERLATA BASIS IN THE STATE OF)
COLORADO.)

Application No. 36491-TA

1 AT&T COMMUNICATIONS OF THE)
MOUNTAIN STATES, INC.,)

Case No. 6386

2 Complainant,)

3 v.)

4 MCI TELECOMMUNICATIONS)
5 CORPORATION, GTE SPRINT)
6 COMMUNICATIONS CORPORATION and)
THE MOUNTAIN STATES TELEPHONE &)
7 TELEGRAPH COMPANY, INC., et al.)

8 Respondents.)

9 Pursuant to notice to all parties in interest,
10 the above-entitled cause came on for hearing before Commissioners
11 Edythe S. Miller and Ronald L. Lehr, in Hearing Room A, Local
12 Tower, 1580 Logan Street, Denver, Colorado, on October 31,
13 1984, at 10:30 o'clock a.m.

14 APPEARANCES:

15 Michael McGloin, Esq.,
16 Denver, Colorado, and
17 Robert Peak, Esq.,
18 New York, New York,

19 for GTE Sprint Corporation;

20 Robert Nichols, Esq., and
21 Stanley Doten, Esq.,
22 Denver, Colorado,

23 for MCI Telecommunications Corporation;

24 Russel P. Rowe, Esq., and
25 David H. Stacy, Esq.,
Denver, Colorado,

for Mountain States Telephone and Telegraph
Company;

APPEARANCES, Continued:

Jeffrey C. Pond, Esq.,
Denver, Colorado, and
Ken Gross, Esq.,
Washington, D.C.,

for Western Union Telegraph Company;

Larry Barnes, Esq., and
Gary Witt, Esq.,
Denver, Colorado,

for AT&T Communications;

Mark Davidson,
Assistant Attorney General,

for the Staff of the Public Utilities
Commission;

John E. Archibold,
Assistant State Solicitor General,

for the Commission.

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I N D E X

	<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>EXAM.</u>
3	STEPHEN CHASE GUNN					
	By Mr. Nichols	23				
4	By Mr. Barnes		25			
	By Mr. Rowe		41			
5	By Mr. Davidson		78			
	By Mr. Archibold		81			
6	By Chairwoman Miller					95
	By Commissioner Lehr					97
7	By Mr. Barnes		99			
	By Mr. Nichols			109		
8	By Mr. Rowe				115	
9	THOMAS F. QUINN					
	By Mr. Nichols	118				
10	By Mr. Barnes		120			
	By Mr. Rowe		130			
11	By Mr. Davidson		155			
	By Mr. Archibold		156			
12	By Chairwoman Miller					162
	By Commissioner Lehr					163
13	By Mr. Nichols			166		
14	KATHLEEN R. FLAHERTY					
	By Mr. Nichols	169				
15	By Mr. Barnes		172			
	By Mr. Rowe		189			

E X H I B I T S

	<u>NUMBER</u>	<u>MARKED</u>	<u>RECEIVED</u>
20	MCI Gunn Testimony and MCI Gunn Exh. 1	23	25
21	MCI Gunn Ex. 2 and 3	72	118
22	MCI Quinn Testimony and MCI Quinn Ex. 1, 2 & 3	117	120
24	MCI Flaherty Testimony and MCI Flaherty Ex. 1 & 2		172

1 identified as MCI Stephen Chase Gunn testimony, a second exhibit,
2 MCI Stephen Chase Gunn Exhibit 1, which is attached to his
3 testimony with an affidavit on the first page.

4 (Whereupon, MCI Gunn testimony
5 and MCI Gunn Exhibit 1 marked
6 for identification.)

7 STEPHEN CHASE GUNN,

8 called for examination, being first duly sworn, was examined and
9 testified as follows:

10 DIRECT EXAMINATION

11 BY MR. NICHOLS:

12 Q Mr. Gunn, will you state your name and business
13 address for the record, please?

14 A Stephen Chase Gunn. It's G-u-n-n. 1133 Nineteenth
15 Street Northwest, Washington, D.C. 20036.

16 Q Mr. Gunn, do you have before you a document
17 entitled MCI Stephen Chase Gunn testimony, the document
18 consisting of ten pages, and, additionally, a document entitled
19 MCI Stephen Chase Gunn Exhibit No. 1, a document consisting of
20 six pages? Do you have those documents in front of you?

21 A Yes, I do.

22 Q Do these documents constitute your testimony and
23 exhibits in this proceeding today?

24 A Yes, they do.

25 Q Were these documents prepared by you or under
your control and direction?

1 A Yes, they were.

2 Q If you were to answer the questions contained in
3 the testimony today, would your answers be the same as they
4 appear in that document?

5 A Yes, they would, except for one. There is one
6 exception.

7 Q Would you like to indicate any corrections which
8 you have, for the record?

9 A Yes, I would.

10 On the last question on page 5, the question
11 reads, "What cities does MCI plan to offer intraLATA service
12 in Colorado?"

13 I left out two cities.

14 Q Would you give those for the record, please, Mr.
15 Gunn?

16 A Longmont and Loveland.

17 Q Longmont and Loveland should be inserted after
18 Pueblo, is that correct?

19 A Yes, that's true.

20 Q Are there any other changes or corrections which
21 you would like to make to your testimony?

22 A No, there is not.

23 MR. NICHOLS: Your Honor, I move the admission of
24 this document into the record, subject to cross-examination by
25 the parties.

1 we could collect sales tax or not.

2 Mr. Quinn might be able to answer this better.

3 If the sales tax is applicable, then we'll charge
4 sales tax. It will show on the customer's bill.

5 Q MCI received a temporary authority from this
6 Commission in August of this year. Are you aware of that?

7 A Yes, sir.

8 Q To do business in Colorado, is that correct?

9 A That is correct.

10 Q Have you had any rate changes since August of
11 this year in the charges that you levy for your services?

12 A Within Colorado? No, we have not.

13 Q How about interstate?

14 A Interstate, yes, we have.

15 Q Don't you charge the same rate in Colorado?

16 A As our tariff, no, it does not.

17 Q Do you have different rates for interstate calls
18 than you do for intrastate calls?

19 A Yes, we do.

20 Q And how did you determine in this case that the
21 rates for your intrastate services? What procedures generally
22 did you follow in doing that?

23 A Well, MCI sets its rates in the competitive
24 marketplace. We look at our chief competitor, in this case
25 AT&T, realizing that we have to compete with AT&T we set our

1 rates below AT&T's.

2 It is that simple.

3 Q Now, are your Colorado rates higher or lower than
4 the interstate rates?

5 A I believe they are higher.

6 Q Does your billing system in billing the tariff
7 charges that you have have the capacity of billing different
8 interstate rates and intrastate rates?

9 A Yes, it does.

10 Q Could you from your billing system discern the
11 interstate calls and charges that you had from the intrastate
12 calls and charges?

13 A Yes, we could.

14 Q Could you from your billing system discern the
15 intrastate interLATA calls from the intrastate intraLATA calls?

16 A Like I said before, we will bill for any call
17 that originates on our network and terminates on our network.

18 Q That didn't respond to my question.

19 A The question of will we between any two city
20 pairs, and will our billing reflect that, yes, it will.

21 Q Okay. Let's be clear on the record about this.
22 Your billing system will reflect the calls that are made in
23 Colorado over your network that are intrastate and interLATA
24 and intraLATA in nature, is that correct?

25 A What our bill shows, and it's attached as an

1 exhibit to my testimony, if it's in the new customer booklet
2 that we send out to our customers explaining the billing, it
3 shows the city called, the phone number called, I believe the
4 time of day, 3 p.m., whatever time the customer called, and the
5 amount charged.

6 It does not show the true origination point of
7 the call. We make an assumption that the customer who is
8 located in Denver calls from Denver.

9 Q Then you don't know if it's a call on an intra-
10 state basis whether it is intrastate or interstate, is that
11 what you are saying?

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1 A We have to make the assumption that a Denver
2 customer is making that call. The call is billed from where
3 the call enters our network.

4 If that Denver customer has taken his authoriza-
5 tion and moved to Kansas City, called over, say, AT&T's
6 network into our Denver switch, and then it goes from Denver
7 to, say, Colorado Springs, we'll bill that call as if it were
8 from Denver to Colorado Springs.

9 Q I understand that. Now, the interstate rates are
10 lower than intrastate rates, and in your billing you bill
11 whatever shows up on your system as originating into your
12 network and terminating out of your network; is that correct?

13 A Yes, that is correct.

14 Q Regardless of whether it's an interstate call
15 or intrastate call; is that correct?

16 A Yes, that's correct.

17 Q So, the customers in Colorado could be billed
18 intrastate rates when, in fact, they should be paying interstate
19 rates; is that correct?

20 A If a customer is actually calling from Denver
21 and terminating that call in Silver Springs, then he's billed
22 at inter -- excuse me -- intrastate rate.

23 Q Do you think it's reasonable to determine the
24 proper tariff charge based upon the billing procedure and the
25 methodology that you're following?

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1 A Yes, I do.

2 Q Would it be reasonable to use for other purposes
3 of dividing interstate and intrastate rates in matters?

4 A I don't quite understand the question.

5 Q Well, if it's reasonable to use this method
6 for billing purposes interstate and intrastate, would it be
7 reasonable to use it for discerning minutes of use for access
8 and other things like that?

9 A I have never really examined that issue. I am
10 sure there are separate issues for determining minutes.

11 Q In other words, it could be reasonable for
12 billing and unreasonable for other matters?

13 A It may be.

14 Q Do you have any opinion as to dividing minutes
15 of access use between interstate and intrastate relative to
16 your billing?

17 A It's not my area of expertise. No, I do not
18 have an opinion.

19 Q Would would that be?

20 A Miss Flaherty, Dr. Flaherty.

21 Q Okay. I've been told that MCI has one switch in
22 the state of Colorado. Do you know if that's correct or
23 incorrect?

24 A I believe that's correct.

25 Q Now, you're professing to serve eight cities in

1 I'll need to go over in that material, or I can address them by
2 data number and put the exhibit together. I can do that. And
3 we can perhaps cover that as appropriate.

4 CHAIRWOMAN MILLER: Will people have the
5 necessary information if you do it by data number?

6 MR. ROWE: I think all the attorneys will. They
7 have all had copies of those documents.

8 CHAIRWOMAN MILLER: Are we going to be able to
9 follow your line of cross, Mr. Rowe?

10 MR. ROWE: Yes. And I'll minimize that until I
11 absolutely have to.

12 MR. NICHOLS: May I clarify on how we're going
13 to proceed on that?

14 MR. ROWE: Well, I have to leave it out at the
15 moment.

16 MR. NICHOLS: Then we'll talk about it again when
17 you have a proposal?

18 MR. ROWE: Yes, because I can't quickly put that
19 stuff together.

20 CROSS-EXAMINATION

21 BY MR. ROWE:

22 Q Good morning, Mr. Gunn. How are you today?

23 A Fine.

24 Q Did you have occasion to review in connection
25 with either the permanent or temporary authority application of

1 MCI Appendix H of the Commission's rules, part 4, for fixed
2 utilities?

3 A I believe I did review those, yes, sir.

4 Q Has MCI presented or prepared or presented a
5 feasibility study showing estimated investment income and
6 expense in Colorado?

7 A Not to my knowledge.

8 Q All right. Does MCI currently keep Colorado
9 specific records on any of those three categories, to your
10 knowledge?

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study
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1 A Not to my knowledge.

2 Q All right. Does MCI presently keep Colorado
3 specific cost?

4 A Once again I don't have any information.

5 Q All right. Now, did you have occasion to review
6 the record -- or, the order entered by the Commission as
7 modified later on the temporary authority application?

8 A I have reviewed quite a bit of information. If
9 you happen to have a copy you could show me, I could definitely
10 say yes or no.

11 Q Sure. The first one is dated August 21st, 1984.
12 Did you have occasion to review that? Do you want to take a
13 look at it?

14 A Yes, if I could just take a look at it.

15 Yes, I have read it.

16 Q Okay. Let me ask you just a few questions about
17 that. First of all, because I am not sure this ever was finally
18 answered on the record, your permanent application is limited
19 to authority to carry interLATA telecommunications, is that
20 correct?

21 A That is correct.

22 Q You are making no request to the Commission to
23 extend that at the present time to intraLATA calls?

24 A Yes, we are not. That's right.

25 Q All right. Have you, or has somebody else on

1 Q And further, if the terminating location were,
2 let's say, Ault, Colorado, instead of one of the cities where
3 you have a point of presence, would it be the airline distance
4 between the originating point of presence and the terminating
5 number at Ault?

6 A Yes, it would.

7 Q That would apply to any call, whether it would
8 be interLATA or intraLATA, isn't that basically true?

9 A As I said before, all calls that would occur on
10 MCI's network would be billed at the appropriate rate.

11 Q Okay. Can you tell me what MCI's interstate
12 revenues -- without stating what they are at the moment -- can
13 you tell me what that figure is? I mean, do you have that
14 knowledge?

15 A I could obtain that figure. I don't have it
16 with me.

17 Q Well, it's in a data response which has been
18 considered proprietary, and I am not going to state out loud
19 what that figure is, but assuming there is some separated
20 volume of intrastate call revenue from the various sources that
21 you have, are you aware of any methodology that you use or have
22 available to you to separate intraLATA from interLATA calls at
23 the present time so that you could identify which of those
24 revenues fall in either of those categories?

25 A I am not familiar with any existing mechanism.

1 Q Do you get any reports that separate that
2 information out for you?

3 A For me, no.

4 Q From inside your company?

5 A No, I do not.

6 Q And that has been true up to the present time,
7 is that right?

8 A Yes, it has been.

9 Q When did MCI first start doing business in
10 Colorado? At least give me a rough date if you don't remember
11 the exact date.

12 A It would have been -- I imagine it would have
13 been when we turned up service in Denver, and I'm afraid I don't
14 have that information with me.

15 Q Could you give me a year so we have a benchmark?

16 A I really don't know. It would be a complete
17 guess on my part.

18 Q If we said 1981 and just used that as something
19 for reference, from that point forward have there been any
20 fundamental changes that you are aware of in MCI's procedures
21 for carrying calls and billing for them?

22 A None that I am aware of, but that is not my area.

23 Q Okay. Have there been any changes that you are
24 aware of since the modified final judgment was issued by Judge
25 Greene?

1 A Once again none that I am aware of.

2 Q Okay. Is MCI T, that is Telecommunications, the
3 applicant in this case?

4 A I believe so.

5 Q All right. Did it start doing business in
6 Colorado on a date different than MCI itself did, or do you
7 know that?

8 A I don't know that. I would assume it did.

9 Q Do you know whether MCI T, that is Telecommunica-
10 tions, is a Colorado corporation?

11 A I don't think so.

12 Q Okay.

13 A I don't know though.

14 Q Is anybody going to testify that has that
15 information?

16 A Mr. Quinn may have that information.

17 Q Okay. I assume Mr. Quinn would be the proper
18 person to talk about taxes, depreciation, accounting procedures,
19 investments, returns, that type of matter, is that right?

20 A That is correct.

21 Q Okay. Do you know what MCI's return on investment
22 in Colorado is, or is that something in Mr. Quinn's area as well?

23

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1 A No, I don't.

2 Q How long did it take you to change the methodology
3 by which you billed customers after there was a change in the
4 rate level between the interstate and intrastate jurisdictions
5 after July 31st?

6 A Well, there is -- it's really a two-part question.

7 Q Okay.

8 A There was -- the system had to be built to handle
9 that. Now, the actual implementation of -- that system was
10 built before we had our authority in the State of Colorado. The
11 actual implementing of the new rate schedule that's in our tariff
12 here was changed -- it took about three days. However, the
13 computer system that made the -- that allowed for that, I think,
14 took several months to develop.

15 Q Was MCI T doing business in Colorado on January
16 1st, 1984?

17 A I believe it was.

18 Q And it's been in business continually since that
19 date?

20 A It has offered service.

21 Q Okay. Do you know where its books and records are
22 located? Are they physically within the State of Colorado or
23 are they someplace else?

24 A I believe they're in Washington, D.C.

25 Q Okay. Have you changed any of the services that

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1 Q And by that I mean I think your only switch
2 location is Denver; is that right?

3 A That is correct.

4 Q So, if the customer were in Greeley, it would
5 have to go from his Greeley location to the point of presence in
6 Greeley.

7 A I don't believe we offer originating MCI WATS
8 service from Greeley. I think at this time it's only available
9 from the Denver location.

10 Q Do you know how many of your customers have that
11 connection?

12 A I don't have that information with me.

13 Q Okay. Your tariff permits completion or allows
14 completion of calls from cities in one LATA to cities in the same
15 LATA, does it not?

16 A Yes, that's correct.

17 Q You have not amended that since the temporary
18 order hearing or temporary authority hearings; isn't that true?

19 A We have filed no amendments to our tariff.

20 Q How do you define long distance as you use that
21 word on page three of your tariff testimony? Do you mean
22 interLATA telecommunications service or do you mean something
23 outside a single wire center base rate area?

24 MR. NICHOLS: Counsel, could you indicate what
25 line we're talking about?

1 MR. ROWE: Yeah, this is on page three, and it's
2 down -- it's the seventh line down in the MCI WATS question
3 line.

4 THE WITNESS: Long distance, as it was used
5 there, was a general term used to indicate it's not a local tele-
6 phone call.

7 Q Okay. But, then, it could be something that is
8 intraLATA, as well; isn't that true?

9 A I suppose so.

10 Q And as configured, you can utilize MCI WATS to
11 complete interLATA calls; isn't that true?

12 A MCI WATS will carry all calls.

13 Q Okay. Same thing applies to Dial -- is it Dial 1
14 service?

15 A Dial 1 service, yes, that's correct.

16 Q That same thing is true for it, is it not?

17 A Yes, it is.

18 Q No change has been made since the temporary
19 authority on that, either; is that correct?

20 A No.

21 Q Is CCSA service offered in Colorado at the present
22 time?

23 A Let me check the tariff. I believe it's offered
24 out of Denver only.

25 Q Okay. Does that permit the completion of an

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1 intraLATA call, as well?

2 A It will allow all calls to be terminated over
3 MCI's network.

4 Q Do you have Dedicated Lease Line service, as
5 explained on page 4, in Colorado?

6 A That's our private line service. Let me check.
7 I don't believe so, but let me confirm that.

8 Q All right. I was trying to find that tariff and
9 I couldn't find it.

10 A Dedicated Lease Line service, it's currently
11 available in Colorado.

12 Q Do you have any plans to offer that?

13 A As other terminal sites become available in
14 Colorado, I imagine we'll turn it up.

15 Q Do you know whether the cost of installation
16 activity for access lines which you use for MCI WATS are
17 capitalized or expensed in Colorado?

18 A I don't know.

19 Q Do you know who would know that?

20 A Mr. Quinn may.

21 Q What is the fixed monthly charge for the dedicated
22 access line for MCI WATS? Is that in the tariff?

23 A Yes, it is.

24 Q Would you point that out to me, please?

25 A That's on page 31, section C, 3.0412. It's toward

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dedicated
leased lines*

1 the bottom of the page.

2 Q Are those monthly charges?

3 A Yes, they are.

4 Q How long have those charges been assessed in
5 Colorado, at least since 1/1 of '84?

6 A At least.

7 Q And before that, as long as MCI has been doing
8 business in the state?

9 A For -- in conjunction with this MCI WATS type
10 service. I don't know if it's always been a hundred dollars.
11 There's been some sort of charge.

12 Q Okay. I'll accept that. And there has been a
13 charge for that service, whether the rate level is the same now
14 or not?

15 A That's correct.

16 Q Okay. Who installs those services; do you know?

17 A No, I don't.

18 Q Do you know whether it's Mountain Bell or -- I
19 mean, do you know of your own knowledge that it's not Mountain
20 Bell?

21 A I believe it is Mountain Bell.

22 Q Okay. It's also true, you say on page 7 that a
23 customer located in Colorado who has selected Service Area One
24 would be able to terminate their calls in Arizona, Kansas,
25 Nebraska, New Mexico, Oklahoma, Utah, and Wyoming.

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1 Isn't it also true that they can terminate their
2 calls in Colorado as well?

3 A Yes, it is.

4 CHAIRWOMAN MILLER: And that's page 7 of the
5 testimony?

6 MR. ROWE: Of the testimony, that's correct.

7 Q Do you know, as related on page 8, what the
8 interest rates for escrow accounts area?

9 A It's whatever the savings account rate is.

10 Q Do you know what that is?

11 A I don't know what that is.

12 Q So, you don't also know whether it complies with
13 the Commission policy in this state; would that be a fair con-
14 clusion?

15 A That would be fair.

16 Q If somebody in Grand Island, Nebraska, chooses
17 to call Grand Junction, Colorado, with his MCI card, is that
18 going to show up on his bill as an interLATA call or intraLATA
19 call or interstate call?

20 A Assuming that we originate traffic from Grand
21 Island, Nebraska, it would show up as an interstate call.

22 Q From whatever point of presence you had that it
23 hit is where it would be billed from; is that right?

24 A In this case, it would be Grand Island, yes.

25 Q Okay. Has MCI performed any studies or done any

not complying w/ Commission requirements

1 were discussing the importance of having the same set of terms
2 and conditions for interstate and intrastate. That's been
3 abandoned to a certain extent since you now have different rate
4 levels; isn't that true?

5 A No, not necessarily. What we're talking about
6 there is treatment of the customer.

7 Q Well, do you have any demonstrated harm to MCI
8 that you can give to this Commission from having different rate
9 levels interstate, intrastate, today?

10 A Rate levels?

11 Q Yeah.

12 A No, not rate levels, no.

13 Q You also say -- and this is about, oh, ten,
14 twelve lines into that text on page nine, words of speaker,
15 "Since customers' acceptance and sound business practice dictate
16 using identical terms and conditions," words of the speaker
17 unquote, that's the introductory clause, dependent clause. Do
18 you have any studies to support that, or is that simply your
19 observation?

20 A It's our observation.

21 Q Is it your observation, since it's your testimony?

22 A It's what I believe to be common sense.

23 Q Okay. To your knowledge, the same network is
24 used ubiquitously to provide all the services you have; is that
25 correct?

1 A Yes.

2 Q And is part of your proposal, I take it, you
3 would not propose to offer cross-support for any of the rate
4 levels or services that you offer; is that correct?

5 A That is correct.

6 Q The Order of August 21, 1984 -- also, I believe,
7 if I can find it -- addressed notification of customers, or
8 maybe that's a subsequent order. Let me take a minute here.

9 Paragraph 7 of the Order which we reviewed a
10 portion of before indicates that MCI T shall mail to all exist-
11 ing and inquiring customers located in the State of Colorado
12 information describing LATA boundaries as well as information
13 indicating that each carrier's respective network is only to be
14 used for interLATA communications.

15 What steps has MCI taken to comply with that por-
16 tion of the Order?

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CROSS-EXAMINATION

1
2 BY MR. DAVIDSON:

3 Q Mr. Gunn, in case you have forgotten the
4 introductions, my name is Mark Davidson, and I represent the
5 staff of the Commission in this proceeding.

6 At page 6 of your testimony, your prepared
7 testimony, you refer to the fact that the Colorado intrastate
8 interLATA rates would be specifically designed for this market.
9 Are you with me there?

10 A Yes, I am.

11 Q Okay. What are the distinguishing features of
12 those rates as they would relate to the interLATA market in
13 Colorado?

14 A Well, they are competitive in all cases with
15 those of AT&T.

16 Q So AT&T is your benchmark in all cases?

17 A Yes, it is.

18 Q You told, I believe, it was Mr. Barnes that one
19 -- or that Colorado rates are different from your current
20 interstate rates, is that correct?

21 A Yes, it is correct.

22 Q And that the Colorado rates are higher in some
23 respects?

24 A In most cases, I believe they are.

25 Q Is that on the mileage basis that you have

1 discussed earlier? In other words, per mile they are higher
2 or just in general?

3 A Per mile they are higher. That is not true in
4 all cases. There are some cases where the interstate rate is
5 lower than -- excuse me -- higher than the intrastate rate.

6 Q Is there any basis that you can use to describe
7 which are higher and which are lower, referring to the Colorado
8 inter -- or intrastate rates?

9 A We would prepare a side-by-side comparison.
10 It is not done yet.

11 Q You have not compared or made that comparison?

12 A No. I have done something on a piece of paper
13 here that I would hardly wish to commit to it right now.

14 Q You also told us earlier that you had read the
15 -- you were familiar in some respects with the Colorado Rules of
16 Practice and Procedure as this Commission applies them regarding
17 the notice period for the changing of tariffs. Do you remember
18 that discussion you had with Mr. Barnes?

19 A Yes.

20 Q Are you also familiar with the Colorado statutes
21 that require a 30-day notice period for the change in tariff?

22 A I believe I remember reading that, yes.

23 Q So your request for waiver, if you will, by the
24 Commission of its 30-day notice period does not address the
25 that Colorado statutory law also requires that notice provis

*Atty Gen's office
Cross-examination
MCI Witness Case 80*

1 doesn't it?

2 A I believe that is correct.

3 Q How do you presently notify customers when you
4 are changing a tariff?

5 A We notify our customers either through a separate
6 mailing or something is sent to each customer, or we notify
7 them in what would be considered a stuffer. It is included
8 with their bill. In each case the customer is notified at a
9 minimum of 14 days in advance of any changes.

10 Q You bill on a monthly basis?

11 A Yes, we do.

12 Q If you would assume with me, Mr. Gunn, that the
13 carriers, other than AT&T, all charge essentially what you have
14 referred to as competitive rates, on what basis, if any, can
15 the Colorado Commission determine whether those rates are
16 justifiable in Colorado? In other words, from an expense
17 standpoint as you discussed with Mr. Barnes earlier whether those
18 rates would cover those expenses, for instance.

19 A I don't know if it is really necessary for the
20 State of Colorado to review those rates. Those rates are set
21 in the competitive marketplace. You do review the rates of
22 AT&T, and if those rates -- since the rates of the competitive
23 carriers are less than AT&T's, I see no need to review those
24 rates.

25 Q Well, is there any way that the Colorado

1 Commission can determine whether the rates in Colorado are being
2 used to support rates in another state, for instance?

3 A I know of no methodology to do that.

4 Q Based upon the fact that you don't intend to file
5 the justification for those rates?

6 A Exactly.

7 MR. DAVIDSON: Those are all the questions I
8 have. Thank you.

9 CHAIRWOMAN MILLER: Thank you, Mr. Davidson.

10 Mr. Archibold.

11 CROSS-EXAMINATION

12 BY MR. ARCHIBOLD:

13 Q Mr. Gunn, I take it that you are familiar with
14 the August 21st order which grants MCI and Sprint temporary
15 authority?

16 A Yes, sir, I am.

17 Q And I was looking or reviewing paragraph two
18 which says, "MCI Telecommunications Corporation granted
19 temporary authority to operate as a common carrier for the
20 provision of intrastate interLATA telecommunications services,"
21 and then it has another sentence about expiration of that
22 authority on February 21, 1985.

23 Is it also true that you would be familiar with
24 the type of authority you have been granted in these other
25 23 states so far?

1 charging intraLATA traffic out of those offices or to those offices,
2 has it?

3 A Well, we think that we're doing quite a bit in
4 developing information to give our customers. It specifically
5 says they're not allowed to make these kinds of calls.

6 Q Do you have any response from your customers or
7 have you undertaken any investigation to determine what impact
8 that will have on customer calling patterns?

9 A No, I don't have any information like that.

10 Q So, you don't know whether they'll be decreased,
11 increased, or stay the same in percentage of --

12 A No, I don't.

13 Q -- intraLATA usage?

14 A No, I don't know.

15 Q Do you have any knowledge at all of access charges?

16 A Very limited.

17 Q Let me ask you this. Do you perceive that your
18 network -- say it's in place in Colorado in some fashion --
19 could be sampled or configured so that it would give you some
20 approximate split of traffic between an interstate and intra-
21 state jurisdiction?

22 A Well, I think that the method that we're using
23 consistent with the access tariffs that went into effect in May
24 is a method that seems to be agreed upon to split interstate
25 and intrastate, if you will.

Handwritten note:
OK
10/1/80

1 Q Are you talking about the FCC interstate access
2 tariff?

3 A Yes.

4 Q And you have, in fact, split traffic on that
5 basis?

6 A I'm not absolutely certain whether or not we've
7 done the first report on that, but it certainly is our intent to
8 do so, according to the procedures that are outlined in that
9 tariff.

10 Q Okay. Let me ask you about a specific data request
11 that's in the document.

12 A Do you have a magnifying glass?

13 Q No. Unfortunately, that's the way I got it from
14 you so I can't really help you much on that.

15 MR. NICHOLS: Counsel, do we have the question?

16 MR. ROWE: The question, no, but we can get the
17 question. I'm not sure we need the question to address this.

18 Q If you look at the bottom of Attachment 75B,
19 isn't that your report basically splitting usage between the
20 state and federal jurisdiction by number of calls, duration of
21 calls, by your various tiers?

22 A That's what it looks like. Looks like an examina-
23 tion of the May billing.

24 Q Okay. You run these reports once a month, do you
25 not?

*have
already
you return*

1 I would like to come back to it. Do you have responsibility
2 for any of the other data requests that appear in Exhibit 2,
3 that is MCI-Gunn-2, which is this package of stuff that I gave
4 you?

5 A To my knowledge, I wasn't involved in preparing
6 this. If there was specific items in here that you think that
7 I might have responsibility for, if you could call them out
8 perhaps we could go faster.

9 Q Okay. That is a reasonable request. Attachment
10 75C purports to be some sort of a tax return I think for
11 property tax purposes for your property in Colorado. Do you
12 know whether it is complete?

13 A I have no idea.

14 Q Okay. Did you have any involvement in preparing
15 any cost studies that were Colorado specific on or after 1/1/84?

16 A No, I did not.

17 Q Did you have any responsibility to prepare a
18 feasibility study for submission to this Commission that
19 relates to investment expenses, or revenues to be derived from
20 the Colorado intrastate market?

21 A No, I did not.

22 Q Have you ever on your own attempted to, or in
23 fact segregated and separated the investments jurisdictionally
24 between interstate and intrastate Colorado for MCI?

25 A No, I have not.

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF COLORADO

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IN THE MATTER OF THE APPLICATION)
OF GTE SPRINT COMMUNICATIONS)
CORPORATION FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY TO)
OFFER INTERCITY TELECOMMUNICATIONS)
SERVICES TO THE PUBLIC IN THE)
STATE OF COLORADO AND FOR THE)
ESTABLISHMENT OF INITIAL RATES.)

Application No. 36360

IN THE MATTER OF THE APPLICATION)
OF MCI TELECOMMUNICATIONS)
CORPORATION FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
TO OFFER INTRASTATE)
TELECOMMUNICATIONS SERVICES TO THE)
PUBLIC IN THE STATE OF COLORADO.)

Application No. 36337

IN THE MATTER OF THE APPLICATION)
OF MCI TELECOMMUNICATIONS)
CORPORATION FOR TEMPORARY AUTHORITY)
TO OFFER INTRASTATE)
TELECOMMUNICATIONS SERVICES TO THE)
PUBLIC IN THE STATE OF COLORADO.)

Application No. 36338-TA

IN THE MATTER OF THE APPLICATION OF)
GTE SPRINT COMMUNICATIONS)
CORPORATION FOR TEMPORARY AUTHORITY)
TO OFFER INTERCITY INTERLATA)
TELECOMMUNICATIONS SERVICES TO THE)
PUBLIC IN THE STATE OF COLORADO.)

Application No. 36448-TA

IN THE MATTER OF THE APPLICATION OF)
THE WESTERN UNION TELEGRAPH COMPANY)
FOR AUTHORITY TO PROVIDE)
INTEREXCHANGE SWITCHED VOICE)
TELECOMMUNICATIONS SERVICE ON AN)
INTERLATA BASIS IN THE STATE OF)
COLORADO.)

Application No. 36456

IN THE MATTER OF THE APPLICATION OF)
THE WESTERN UNION TELEGRAPH COMPANY)
FOR TEMPORARY AUTHORITY TO PROVIDE)
INTEREXCHANGE SWITCHED VOICE)
TELECOMMUNICATIONS SERVICE ON AN)
INTERLATA BASIS IN THE STATE OF)
COLORADO.)

Application No. 36491-TA

1 AT&T COMMUNICATIONS OF THE)
MOUNTAIN STATES, INC.,)

Case No. 6386

2 Complainant,)

3 v.)

4 MCI TELECOMMUNICATIONS)
5 CORPORATION, GTE SPRINT)
6 COMMUNICATIONS CORPORATION and)
THE MOUNTAIN STATES TELEPHONE &)
7 TELEGRAPH COMPANY, INC., et al.)

8 Respondents.)

9 Denver, Colorado

10 November 1, 1984

11 10:00 o'clock a.m.

12 Met pursuant to recess.

13 Before COMMISSIONERS:

14 Edythe S. Miller
15 Ronald L. Lehr

16 APPEARANCES:

17 (As previously noted.)
18
19
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25

I N D E X

<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>EXAM.</u>
KATHLEEN FLAHERTY					
By Mr. Davidson		29			
By Mr. Archibold		34			
By Chairwoman Miller					45
By Commissioner Lehr					47
CAROLYN J. RATTI					
By Mr. Peak	65				
By Mr. Barnes		66			
By Mr. Stacy		84			
By Chairwoman Miller					95
By Mr. Davidson		104			
By Mr. Archibold		122			
JAMES B. BOYD					
By Mr. Peak	130				
By Mr. Barnes		132			
By Mr. Stacy		138			
By Mr. Davidson		158			
By Mr. Archibold		162			
By Chairwoman Miller					172
By Commissioner Lehr					179
By Mr. Barnes		182			
G. JAY NELSON					
By Mr. Peak	187				
By Mr. Pond		190			
By Mr. Barnes		193			
By Mr. Stacy		214			
By Mr. Davidson		231			
By Mr. Archibold		237			
By Chairwoman Miller					244
By Commissioner Lehr					247

E X H I B I T S

<u>NUMBER</u>	<u>MARKED</u>	<u>RECEIVED</u>
GTE-S Ratti Test. & No. 1		66
GTE-S Boyd Test.	130	131
GTE-S Boyd No. 1	176	178
GTE-S Nelson Test. & No. 1	187	188

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25

1 very quickly and succinctly, what is your Sprint service?

2 A It is a service similar to AT&T's MTS service.

3 Q And that means that each customer that subscribes
4 to this service will be charged five dollars a month even if
5 they don't use that much long distance, is that correct?

6 A Yes, that is correct. There is a five dollar
7 minimum monthly usage requirement.

8 Q Now, can you tell me why you have that requirement?

9 A No, I'm sorry. I didn't remember that you had
10 asked that of me. I was not involved with that decision.

11 Q Now, that is part of the tariffs, right?

12 A Yes, it is.

13 Q And you are here to testify about the tariffs,
14 is that correct?

15 A Yes.

16 Q Okay. Now, with regard to charging for intraLATA
17 calls, if they are completed over GTE's network, what charge
18 would be made according to your tariffs for the intraLATA calls
19 in Colorado that are completed over the GTE network if they are
20 completed over that network?

21 A Well, we would charge the customer the rate for
22 the appropriate mileage band.

23 Q And where would you get this rate?

1 A Well, it's in both the intrastate and the inter-
15 state tariff. The rate is the same.

1 Q So, you would charge the customer for the
2 intrastate intraLATA call the interstate rate which is the
3 same as the intrastate interLATA rate, is that correct?

4 A Yes.

5 Q Now, your tariffs do not state this, do they,
6 that you will make this type of charge?

7 A They state what the charges are for the
8 appropriate mileage band.

9 Q Do they state that a charge will be made for
10 intraLATA calls anywhere?

11 A The tariffs don't address that issue. The
12 tariffs say that we are authorized to offer interLATA service.

13 Q I would assume that neither the interstate nor
14 the intrastate have any provision in them that would state that
15 charges will be made at certain rates for intrastate intraLATA
16 calls, am I correct?

17 A They do not state that, no.

18 Q In your capacity as a tariff expert, do you
19 know anything about the access charges that are associated with
20 the services that are provided in hour tariffs?

21 A I am not an access charge expert, no. I know
22 generally. I am generally familiar with access charges.

23 Q I don't want to prolong the hearing, but I guess
24 I need to know from you should I address access charge questions
25 to you or someone else that will follow you?

1 A Well, in our application, we're requesting 14
2 days' notice. We would like the changes to go into effect on
3 14 days' notice.

4 We filed this tariff, I believe, on October 5th.
5 The 14 days has passed since then. We would like it to go
6 into effect as soon as possible.

7 Q Has it already gone into effect?

8 A No. It has not been approved.

9 Q Now, do you have one billing system for inter-
10 state and intrastate rates?

11 A Yes, we do.

12 Q Have you made this change on an interstate basis?

13 A I don't believe we've made it yet.

14 Q Does that mean you know or do you know that
15 you haven't made it yet or you don't know?

16 A What's the date today.

17 Q It's the First of November.

18 A Okay. The changes were scheduled to go into
19 effect November 1st --

20 Q So --

21 A -- at the interstate level.

22 Q So, the interstate rate goes into effect today;
23 is that correct?

24 A That's true.

25 Q Now, what happens to the state rate?

1 A I'm not absolutely sure.

2 Q Well, you have in your testimony the fact that
3 your tariff is on inter. Intrastate basis and interstate
4 basis are identical; is that correct?

5 A Yes, that's correct.

6 Q Can you bill separately for different intrastate
7 rates and interstate rates in the state of Colorado at this
8 moment?

9 A My understanding is that we do not have that
10 capability at this time.

11 Q Therefore, doesn't that mean if you put this
12 in effect on an interstate basis it also went into effect today
13 in the state of Colorado; is that correct?

14 A That may be correct. I'm not sure.

15 Q Are there any other changes that would have --

16 A Could I just clarify one thing?

17 Q Sure.

18 A I think that the changes that are going into
19 effect on November 1, I don't believe there are any changes to
20 the Sprint rates. I think that the changes that are going into
21 effect are -- have to do with the structure of our WATS type
22 service.

23 Q Could we conclude, since you have only one
24 billing system at the moment, that any changes made in the
25 interstate rate on a 14-day notice basis would automatically

AT&T
Cross-examining
GTE's Analyze Rates
83

1 this Commission to do relative to approving your tariffs now
2 and in the future?

3 A Well, what we would like would be to receive
4 from this Commission the treatment that we have received from
5 the FCC, and that is that our tariffs be presumed valid, that
6 they -- tariff changes be allowed to become effective on 14
7 days' notice, that we not be required to file cost support
8 data or conform to the USOA and that we be allowed to use the
9 same billing and customer service procedures that we use at
10 the interstate level.

11 Q Now, one last question or line of questioning.
12 How do you set your rates that you have in your intrastate
13 tariffs in Colorado?

14 A Well, the rates that we have in -- that we're
15 proposing for Colorado now are the same as the rates that we're
16 using on an interstate level. We're using the same rates
17 nationwide.

18 Q And how were the rates on an interstate level
19 established?

20 A They were established by our marketing depart-
21 ment after an analysis of the market.

22 Q Would it be safe to say that the benchmark --
23 I believe that's been used before -- was the AT&T rate and
24 that the GTE rates were then set under that?

25 A I think that's a fair characterization.

1 Q And, therefore, the rates in the state of
2 Colorado that you're proposing are interstate rates of GTE
3 that have been set just below the interstate rates of AT&T.

4 A I believe that's true.

5 Q Without relevant -- without concern or review-
6 ing any costs associated with that; is that correct?

7 A That's true.

8 MR. BARNES: No further questions.

9 CHAIRWOMAN MILLER: Thank you, Mr. Barnes.

10 Mr. Rowe.

11 MR. ROWE: Mr. Stacy will --

12 CHAIRWOMAN MILLER: Mr. Stacy.

13 MR. ROWE: At least, I hope he is. Otherwise,
14 my cross will be substantially shorter than half an hour.

15 THE WITNESS: Be fine with me.

16 CHAIRWOMAN MILLER: You have until ten of one,
17 Mr. Stacy.

18 MR. STACY: Thank you.

19 CROSS-EXAMINATION

20 BY MR. STACY:

21 Q Ms. Ratti, am I pronouncing that right?

22 A Yes.

23 Q Ratti. You are a regulatory analyst; is that
24 right?

25 A Yes, I am.

*Hauntani by
Cross-examining
GTE's Rattle 92*

1 ask when you expect that service to be on line?

2 A I don't know that we have firm plans. I think
3 that it depends -- it may depend on the type of regulations to
4 which we are subjected in the state. It may depend on the
5 market, our facilities, our capacity, the demand.

6 Q The next page in your testimony you speak in
7 terms of rates that your company charges on an intrastate basis
8 as being the same as they are on an interstate basis. Do you
9 see that reference?

10 A On page 8?

11 Q Correct. At the top.

12 A Yes.

13 Q Are GTE Sprint's costs for intrastate and
14 interstate service the same?

15 A I don't know. We have never broken down our
16 costs on a state by state basis.

17 Q As with MCI then, should we assume that you
18 price your services based on marketing factors as opposed to
19 cost?

20 A I think you could characterize it that way, but
21 I would add that our services, we must cover our costs somehow
22 or I doubt that we would still be in business.

23 Q Other than the fact that you are still in
24 business, how do you know that you cover your costs?

25 A I am not the financial witness. Maybe you could

1 ask him about that.

2 Q Okay. Do you consider access charges that GTE
3 Sprint pays around the country, and with respect to its Colorado
4 business, as constituting a cost of providing a particular
5 service?

6 A Certainly that is a big cost to us.

7 Q Are you aware that the intrastate and interstate
8 access charges are not identical with respect to Colorado
9 operations?

10 A That is my understanding.

11 Q Do you feel that that cost -- or perhaps this
12 is an appropriate question for your financial person but I will
13 ask it anyway -- do you feel that the difference in cost in the
14 access charges would be a factor that would normally go into
15 the equation of determining what rates GTE Sprint will be
16 charging for a particular service?

17 A I don't know that it's a factor that would
18 normally go into the equation. We don't break down our cost
19 and price our services accordingly.

20 Q Okay. You also make reference to the term
21 "market power" several times in your prefiled testimony. Can
22 you tell us, please, what you mean by that term?

23 A I think that I would defer that question to Nina
24 Cornell. She is the policy expert in this proceeding.

25 Q I think that is fine, but this is your testimony

1 consider whether or not we could enter the market.

2 Q Well, you've testified that your prices or your
3 rates are not based on your costs, correct?

4 A Yes.

5 Q Therefore, this cost, as with any other company,
6 presumably would not be a factor in setting your rates; is
7 that a fair statement?

8 A It's not a -- I'm sure that it's a factor.
9 There is not a direct correlation, but if our costs were to
10 rise at a larger rate, I'm -- you know, I'm sure that there
11 would be a -- we would have to make a decision on whether or
12 not we could comply.

13 Q How would you make that decision, inasmuch as
14 you have testified that GTE Sprint does not account for its
15 costs on a state-specific basis?

16 A I'm sorry. I don't understand the question.

17 Q I'm wondering how you could even perform that
18 analysis for Colorado if the Commission were to order rate
19 base regulation, inasmuch as you have testified that you don't
20 have state specific cost data.

21 A That's true, we don't, but if we were required
22 to assign personnel for a project specific to this state, then
23 we would impose costs for that project. Incur costs. I'm
24 sorry.

25 Q All right. In addition to adding personnel,

1 you would have to presumably make whatever alterations were
2 necessary to utilize the uniform system of accounts; is that
3 correct?

4 A That's correct.

5 Q That's one of the costs that you're talking
6 about.

7 A Certainly.

8 Q And is it not your contention, as you set forth
9 in 19 through 22, the bottom of the page, that those costs
10 would be incurred for no useful purpose?

11 A Yes, that's our position.

12 Q In what sense do you use the term "useful
13 purpose," or "no useful purpose"?

14 A Well, I think it's clear. We don't see any
15 benefit to be derived from forcing us to comply with the
16 uniform system of accounts.

17 Q And no benefit to the citizens or the rate
18 payers of the state?

19 A That's right.

20 Q Page 13, you discuss off-peak hour discounts;
21 do you recall that?

22 A Yes.

23 Q Isn't it true -- let me put it this way. Is it
24 true that GTE Sprint proposes to offer different discounts to
25 different customers?

1 A No, I don't know.

2 CHAIRWOMAN MILLER: You have four minutes, Mr.
3 Stacy.

4 Q (By Mr. Stacy) Thank you. On page 16, I
5 believe you make reference to -- in the lines 15 or 16 through
6 21 to the bill that your customers receive.

7 A Yes.

8 Q The last item mentioned refers to the provision
9 of a grouping of calls made between city pairs; is that right?

10 A Yes.

11 Q Inasmuch as you can provide the grouping of
12 calls between city pairs, what is there to prevent GTE
13 Sprint from providing calls broken down by intraLATA versus
14 interLATA?

15 A Well, the city pairs that are shown on the
16 bill only represent the point of entry into our network and
17 the termination point of the call. We don't know the true
18 origination point of each call.

19 Q Is that the only reason that you cannot provide
20 on your bill a segregation of the intraLATA calls?

21 A Well, I don't -- our billing system is not
22 equipped to do that.

23 Q What would be required for it to become
24 equipped to do it? One program, right?

25 A Well, I think first you would have to figure

1 out how we're going to define intraLATA calls. If we don't
2 know the origination of a call, then we don't know whether or
3 not a call is, in fact, intraLATA.

4 Q You would agree, wouldn't you, that the system
5 could be modified so as to reflect the intraLATA calls?

6 A No.

7 Q Okay.

8 A Not if we don't know whether or not the calls
9 are intraLATA.

10 Q Are you familiar with the phrase call detail
11 tape?

12 A Yes.

13 Q Can you briefly explain what that is?

14 A What that is is a magnetic tape that we provide
15 to those customers who subscribe to that service that gives
16 them a detail of their calls, that the information that is
17 on the call detail tape is the same information that is
18 contained on the detail page of their bill. They just receive
19 it in the magnetic tape form.

20 Q And what is the magnetic tape detail service;
21 is that the same thing?

22 A Yes.

23 Q Now, GTE Sprint was authorized to do business
24 in Colorado on or about November 21, 1983; does that sound
25 right to you?

1 have an opinion that is admissible into evidence on that unless
2 she is a lawyer.

3 CHAIRWOMAN MILLER: DO you feel you have an
4 opinion on that, Ms. Ratti?

5 A I don't feel that I can formulate an opinion
6 without having read the statutes.

7 Q (By Mr. Davidson) I will accept that. That is
8 fine. You have told us earlier that Sprint does not give much
9 weight to its cost in determining its rates, that it is a
10 competitive based structure, is that right?

11 A I don't know that I said that we don't give much
12 weight to that. There is not a direct correlation.

13 Q Is there an indirect correlation?

14 A Well, I think you are beyond the scope of my
15 expertise. The rates are set by the market department, and I
16 believe that they are set largely in response to the market
17 price.

18 Q Okay. Assuming that that is the case, how is
19 the Colorado Commission going to determine whether Sprint's
20 rates in Colorado may not be used to support rates in another
21 state where you are operating?

22 A Well, I think that is a question that Dr. Cornell
23 is better prepared to answer than I. I think that if our rates
24 are competitive, then it follows that they must be fair and
25 reasonable.

1 Q Well, I am not really asking whether they are
2 fair and reasonable. I am asking if here in Colorado the rates
3 that you establish are perhaps -- or how can we tell whether
4 or not they are being used to support rates, lower rates in
5 another state?

6 A Again, I think that is a question better put to
7 Dr. Cornell.

8 Q Well, just so that I don't miss my chance with
9 Dr. Cornell, is she a member of your marketing department and
10 will be able to address that on a Sprint-specific-basis?

11 A No, she is not a member of our marketing
12 department. She addresses that on a general policy basis.

13 Q Is she making the policy for Sprint in this
14 area that I am interested in?

15 A No, she doesn't make the policy for Sprint.

16 Q Okay. Will there be anybody from Sprint that
17 could possibly address that from your marketing department,
18 for instance, that will testify here?

19 A We had no plans to put on a witness who deter-
20 mines the rates, no.

21 MR. PEAK: Mr. Davidson, maybe I can clarify
22 for you.

23 MR. DAVIDSON: Okay.

24 MR. PEAK: Dr. Cornell will testify and answer
25 questions on that subject from the point of view of her economic

1 me there?

2 A Yes.

3 Q Are you familiar with this Commission's rules
4 regarding the termination of service?

5 A No, I am not personally familiar.

6 Q Do you know whether or not Sprint intends to
7 comply with those rules if this application is granted?

8 A No. I think it is very possible that we already
9 do comply. I understand that our rules are quite lenient in
10 that regard.

11 Q So Sprint in your opinion would intend to comply
12 with this Commission's rules regarding termination?

13 A Well, Sprint is asking that we be permitted to
14 implement the same billing and customer service regulations
15 that we use at the interstate level, because our customers use
16 an integrated service and we don't really know how we could
17 apply two different sets of regulations to the same customers.

18 Q Well, let's just suppose for a minute that this
19 Commission rejects that proposal, but grants you your authority.

20 Has Sprint done any investigation or conducted
21 any study to determine its ability to comply with this
22 Commission's rules regardless of what we are talking about as
23 they differ from FCC rules?

24 A I have not personally conducted such a study.
25 I don't know to what extent the legal department has reviewed

1 Q Okay. You had a discussion with Mr. Barnes
2 about the effective date of your recent tariff change.
3 Remember that line of discussion? How often does Sprint or
4 has Sprint, let's say, within the last 12 months changed its
5 rates?

6 A I believe that we had -- we had a major change
7 on January 1st of this year. I think that we made some minor
8 changes in March, sometime in the spring, and I believe we
9 made a change in September. I think those were also fairly
10 minor changes.

11 Q Were those changes to your interstate rates
12 only?

13 A They were changes to our interstate rates, yes,
14 and to intrastate rates where we had intrastate tariffs.

15 Q Okay. That's my next question, I guess. If
16 the intraLATA rates in Colorado have not changed effective
17 today --

18 A Uh-huh.

19 Q -- as I indicated, they had not been improved
20 yet. There are other states in a similar situation wherein
21 rate changes may not go into effect at the same time as your
22 interstate tariff filings will go into effect.

23 A I'm not really sure about that. I think that --
24 I think that we've run into a couple of problems that we've
25 been able to work out with the various commissions.

STANDING COMMITTEE REPORT

MARCH 14

19 85

MR. PRESIDENT

We, your committee on **BUSINESS & INDUSTRY**

having had under consideration **HOUSE BILL** No. **852**

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color

**EXCLUDE CERTAIN PERSONS FROM DEFINITION OF PUBLIC UTILITY
(Jacobson)**

Respectfully report as follows: That **HOUSE BILL** No. **852**

BE CONCURRED IN

~~XXXXXXXX~~

~~XXXXXXXX~~

Mike Halligan

Chairman.

STANDING COMMITTEE REPORT

MARCH 14 19 85

MR. PRESIDENT

We, your committee on BUSINESS & INDUSTRY

having had under consideration HOUSE BILL No. 380

third reading copy (blue)
color

ELIMINATING NONDUPLICATING PROVISION FROM RURAL COOPERATIVE UTILITIES LAW (Haffey)

Respectfully report as follows: That HOUSE BILL No. 380

BE CONCURRED IN

~~XXXXXXXX~~

~~XXXXXXXX~~
DO NOT PASS

Mike Halligan Chairman.