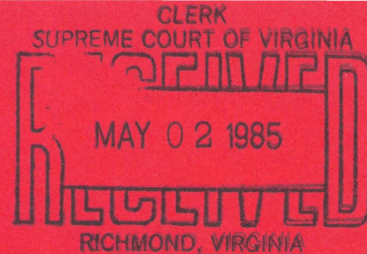


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IN THE  
**Supreme Court of Virginia**  
AT RICHMOND

RECORD NO. 841881

GTE SPRINT COMMUNICATIONS CORPORATION OF VIRGINIA,  
Appellant,  
v.

AT&T COMMUNICATIONS OF VIRGINIA, INC., ET AL.,  
Appellees,

RECORD NO. 841882

MCI TELECOMMUNICATIONS CORPORATION OF VIRGINIA,  
Appellant,  
v.

AT&T COMMUNICATIONS OF VIRGINIA, INC., ET AL.,  
Appellees.

JOINT APPENDIX  
Volume III

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COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

PETITION OF

CASE NO. PUC840023

AT&T COMMUNICATIONS  
OF VIRGINIA

For authority to set rates  
and charges pursuant to  
Section 56-481.1 of the  
Code of Virginia

A complete transcript of the testimony and  
other incidents of the above-captioned matter when heard  
on July 27, 1984, before the Honorable Commissioners of  
the State Corporation, Richmond, Virginia.

Reported and transcribed  
by: Joyce A. Holzman

ASSOCIATED REPORTERS  
OFFICIAL COURT REPORTERS  
STATE CORPORATION COMMISSION  
POST OFFICE BOX 1197  
RICHMOND, VIRGINIA 23209

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I N D E X

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E X H I B I T S

Exhibit A

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NOTE: The matter is called to be heard at 2:00 p.m., on July 27, 1984, and begins as follows, viz:

THE BAILIFF: Case No. PUC840023, AT&T Communications of Virginia, petition to set rates and charges pursuant to Virginia Code Section 56-481.1.

Commissioner Shannon, presiding.

Robert M. Gillespie, counsel for the Commission.

Counsel for AT&T Communications, W. McCarey and M. J. Morrissey, Glenn A. Stover.

Anthony Gambardella, Division of Consumer Counsel, present.

And GTE attorneys are D. A. Dupont and James E. Magee.

For MCI, Protestant, we have W. Marmon and H. W. Moore.

COMMISSIONER SHANNON: May I have the appearance slips?

THE BAILIFF: Yes, sir.

1  
2 COMMISSIONER SHANNON: Mr. Gillespie.

3 MR. GILLESPIE: Your Honor, the  
4 Staff doesn't have a proposal on this petition  
5 as we had this morning because AT&T already  
6 has a certificate of convenience and necessity,  
7 and I do not believe Mr. Jones needs to take  
8 the stand to address the reasonableness of  
9 the tariff because the Commission approved  
10 those tariffs last December. So the Staff's  
11 position in this case is neutral.

12 I don't know if the Bailiff received  
13 any appearance forms from public witnesses.

14 COMMISSIONER SHANNON: Let me ask.  
15 Are there any public witnesses that are here  
16 that want to testify.

17 THE BAILIFF: I asked earlier, sir.  
18 No one.

19 COMMISSIONER SHANNON: Let the record  
20 show there is no response.

21 MR. GILLESPIE: I believe we can  
22 just proceed with Mr. Morrissey's and  
23 Ms. McCarey's presentation of the case.

24 COMMISSIONER SHANNON: All right.  
25 We'll have opening statements here, and I'll

ask you to each identify yourself and who you appear for before you make your statement.

Who appears for AT&T?

MR. MORRISSEY: Judge Shannon, I'm Michael J. Morrissey representing AT&T Communications of Virginia. With me today is Ms. Wilma McCarey, a member of the Virginia Bar. Also, I would like note the appearance of Mr. Glenn A. Stover, who is a member of the Bar of the District of Columbia, who is not present today.

COMMISSIONER SHANNON: All right.

MR. MORRISSEY: As a preliminary matter, I do have the certificate of service on the other inter local exchange companies as required by the Commission's Order. We received return receipt certificates from all of the companies with exception of four who stated they had, in fact, mailed those return receipts, and we notified them by phone, and they reaffirmed that they had, in fact, received notice.

In addition, I have the proof of publications in the Virginia publications,

as also stated in the Commission's Order and in our notice, and I would have both of these marked collectively as AT&T Exhibit No. 1.

COMMISSIONER SHANNON: Well, we'll call them Exhibit A.

MR. MORRISSEY: All right.

COMMISSIONER SHANNON: Applicant's Exhibit A. You can pass those up to the Bailiff.

MR. MORRISSEY: Let me state briefly our purpose in being here is the purpose that many of the other interexchange carriers were here this morning, the exception that as Mr. Gillespie pointed out that we already have a certificate of convenience to operate in the Commonwealth. We are now at this juncture requesting, as several other interexchange carriers are, to be treated under the flexible regulations allowed by the legislation passed by the Virginia Legislature effective on July 1.

In support of our proposal, we intend to present the testimony of three witnesses; Dr. Frank Alessio, who is an economist; next

1  
2 Mr. Douglas Wilcox, who will testify as to  
3 the market conditions in Virginia, and Mr. John  
4 Schell, who will address certain of the ques-  
5 tions on access that have arisen and been  
6 posed by certain other parties and protestants  
7 to this case.

8 With the Commission's permission,  
9 we have prefiled the testimony of the three  
10 individuals. We do know that the Commission  
11 has had a heavy hearing schedule today, and  
12 what we would propose to do is to present  
13 these three witnesses, present their prefiled  
14 testimony, have the witnesses give a short  
15 summary of their testimony and have them  
16 subject to cross examination. We do this  
17 to facilitate the hearing this afternoon.

18 COMMISSIONER SHANNON: Have the  
19 prepared statements of the three witnesses  
20 been distributed? I know the Commission got  
21 it yesterday afternoon. I think we've been  
22 reading it this morning and at the lunch  
23 break, but I wonder if the other counsel have  
24 had an opportunity to read it.

25 MR. MORRISSEY: They were served



on all counsel for all parties last evening.

COMMISSIONER SHANNON: Thank you,  
Mr. Morrissey.

Who appears for the Protestants?

MR. MOORE: Your Honor, I have a  
motion first; and if it's necessary, Mr. Marmon  
will make the opening statements for MCI.

I would renew my motion to continue  
this case. In addition to the reasons we  
stated on July 20, 1984, before this Commission,  
the testimony Mr. Morrissey refers to was,  
indeed, served on us. It was served on us  
at about 6 o'clock last night, and I'm not  
questioning the timing of that on his part.  
I think they did the best they could. The  
point is the best they could: wasn't good  
enough to give this Commission, to give all  
the parties an opportunity to review this  
testimony. Much of it was similar to what  
has been filed in other states, but there  
were statistics in it, there were a number  
of statistics. We have not had an opportunity  
to review that as the Commission knows. We've  
all had hearing here this morning, and we were

1  
2 served last night with over a hundred pages  
3 of testimony and exhibits. They were filled  
4 with numbers that, frankly, I don't think any  
5 of the people had seen before.

6 In addition to that, last Monday,  
7 we received answers to AT&T's-- our interroga-  
8 tories to AT&T. On many of those interroga-  
9 tories, especially, 2, 4, 5, 10, 11, 18, and  
10 22, the Petitioner here said the information  
11 was proprietary; would not provide it to us;  
12 offered to provide it to the Commission or the  
13 Commission Staff. I think the Commission  
14 Staff needs to look at those data that needs  
15 to be faced by this Commission that can't be  
16 done now. The data isn't available.

17 Finally, on a motion that we made  
18 last week requesting the Commission to issue  
19 an order requesting a report from each of the  
20 operating companies has not been acted on.  
21 I know when we made our motion on the 20th,  
22 or argued our motion on the 20th, the  
23 Commission said that the parties should  
24 respond today. That decision was made prior  
25 to the Commission's deciding not to continue

1  
2 this case. In light of that, of course, the  
3 Commission has not acted on our motion. The  
4 data we requested there is critical for this  
5 case. It involves equal access with these  
6 other 20 companies across the Commonwealth.  
7 We don't just deal with C&P; we deal with 21  
8 local exchange companies.

9 We believe the Commission needs  
10 those data; and if this case is not continued  
11 and those data looked at and given all the  
12 parties an opportunity to review the informa-  
13 tion we have and respond meaningfully to it,  
14 this Commission cannot have an adequate record,  
15 and we will not have due process.

16 COMMISSION SHANNON: Would you care  
17 to respond, Mr. Morrissey?

18 MR. MORRISSEY: Yes, Judge Shannon.  
19 I will not remake my arguments from  
20 last week, but I would point out that counsel  
21 for MCI has neglected to point out that they  
22 have asked for the same type of relief that  
23 we are asking; have not prefiled testimony;  
24 had a lot of testimony, and operated under the  
25 same due process requirements that we are

1  
2 operating in this case. Much of the testimony,  
3 specifically, that of John Schell, is in  
4 response to questions which counsel for MCI  
5 said must be answered. We have answered  
6 those questions. We did not believe those  
7 questions needed to be answered. We didn't  
8 think they were relevant, but we did answer  
9 them at the convenience of the Commission.

10 I think there is a full-- there will  
11 be a full and complete record, and it certainly  
12 is as full, if not fuller, than the record  
13 developed by all the other interexchange  
14 carriers this morning.

15 COMMISSIONER SHANNON: Any other--  
16 anybody else care to comment, pro or con?

17 It's the unanimous opinion of the  
18 Commission that your renewal of your motion  
19 to continue is denied, Mr. Moore. I take it  
20 you'd like to note exception.

21 MR. MOORE: Yes.

22 COMMISSIONER SHANNON: All right.  
23 Who is the next counsel?

24 MR. MARMON: I'm William Marmon  
25 for MCI of Virginia.

1  
2 COMMISSIONER SHANNON: Go ahead.

3 MR. MARMON: MCI believes that it  
4 is premature to totally deregulate the rates  
5 of AT&T of Virginia at this time. The reason  
6 is simple. AT&T of Virginia retains significant  
7 power in the State. They would make it impos-  
8 sible for it to render services on a competitive  
9 basis, and the basis for this market power is  
10 a continuation of a large number of monopoly  
11 customers who have no other choice than AT&T  
12 for their interLATA long distance services,  
13 and because AT&T provides monopoly services  
14 that are not provided and are unable to be  
15 provided by any other carrier in the State at  
16 this time.

17 MCI will establish this as best it  
18 can under the circumstanes, and we'll hear  
19 today by cross examination of the witnesses  
20 and by the presentation of Dr. Nina Cornell,  
21 President of Cornell, Pelcovits & Brenner  
22 Economists, Incorporated, whom you met this  
23 morning.

24 Thank you very much.

25 COMMISSIONER SHANNON: Thank you.



1  
2 Do you want to go last, Mr. Gambardella?

3 MR. GAMBARDELLA: That's fine,  
4 Your Honor.

5 COMMISSIONER SHANNON: All right.

6 Next.

7 MS. DUPONT: Deborah A. Dupont  
8 appearing on behalf of GTE Sprint  
9 Communications Corporation. James E. Magee  
10 of the law firm of Isham, Lincoln & Beale  
11 will also be representing GTE Sprint in this  
12 proceeding.

13 Like MCI, it is the position of  
14 GTE Sprint that it is inappropriate to  
15 deregulate AT&T's rates at this time. We  
16 take the position that AT&T is not providing  
17 its services on a competitive basis currently  
18 and that relaxed rate regulation under the  
19 recently promulgated legislation would,  
20 therefore, be inappropriate.

21 GTE Sprint intends to tender two  
22 witnesses in this proceeding in addition to  
23 cross examination of AT&T's witnesses. We  
24 will present Ronald D. Havens, an engineer with  
25 GTE Sprint Communications Corporation, who

1  
2 will address technical issues that should  
3 be considered in determining whether AT&T  
4 is providing its service on a competitive  
5 basis.

6 In addition, we will present  
7 Mary F. Brackbill, an economist  
8 on the regulatory staff of GTE Sprint  
9 Communications Corporation, who will explain  
10 why AT&T is not providing its service on a  
11 competitive basis and why the current form  
12 of regulation should be continued at this time.

13 COMMISSIONER SHANNON: Thank you,  
14 Ms. Dupont.

15 Mr. Gambardella.

16 MR. GAMBARDELLA: Thank you, Your  
17 Honor.

18 I'm Anthony Gambardella, Senior  
19 Assistant Attorney General, appearing again  
20 on behalf of the Division of Consumer Counsel  
21 in this case.

22 This morning the Commission heard  
23 from several companies, each of which will  
24 enter or would like to enter the interexchange  
25 business intrastate in Virginia. Each of them

1  
2 stated, as best I recall it, that they will  
3 begin service in certain areas of the State  
4 and expand and hopefully encompass the entire  
5 area of the State at some point in the future.  
6 Some were uncertain how long it would take.  
7 In the meantime, there will be areas of the  
8 Commonwealth and customers in the Commonwealth  
9 which will be served that they will not be  
10 able to serve.

11 AT&T, on the other hand, will serve  
12 all of the customers in Virginia. It is able  
13 to do so by virtue of the fact that it is the  
14 successor to a line of corporations that held  
15 a legal monopoly in its service in this State  
16 for many, many years. Unlike all of its  
17 competitors which will start serving parts  
18 of Virginia and expand, AT&T serves everywhere  
19 now and will continue to do so.

20 This situation requires special  
21 protection of those customers who will have  
22 no alternative, albeit perhaps temporarily.  
23 There remains an opportunity for AT&T to  
24 cross-subsidize competitive activities with  
25 noncompetitive ones; and accordingly, we would

1  
2 request the Commission to condition any  
3 approval of any relaxation of AT&T's regula-  
4 tions with a condition which would require  
5 that they charge uniform rates throughout the  
6 State on a service plus service basis. In  
7 other words, every customer in the State  
8 would get the same rate.

9 Now, they mentioned some things  
10 about deaveraging and talking the jargon of  
11 the industry in a couple of places in the  
12 testimony, and I've had a very limited time  
13 to review that. That was served on us at  
14 6 o'clock as well, 6 o'clock last evening.

15 We want to find out what those  
16 statements mean. We don't mean to disparage  
17 them, but we would like to know the commitment  
18 we're getting is the commitment we think is  
19 necessary; and, in fact, we think it ought  
20 to be imposed by the Commission as a condition  
21 of any approval here on the understanding that  
22 any change in that condition, any deaveraging,  
23 if that's the industry term for it, would be  
24 undertaken only after Commission approval.

25 In addition, this application raises

1  
2 the same antitrust issue that we raised in  
3 this morning's case. Both State and Federal  
4 antitrust laws exempt conduct which would  
5 otherwise be an antitrust violation where  
6 that conduct is compelled by a state regulatory  
7 commission. So the Commission should care-  
8 fully consider the impact of its decision  
9 here. If you intend to authorize specific  
10 activities, which you believe is anti-  
11 competitive, you should be specific about  
12 what that conduct is, and that you are com-  
13 pelling the Company to engage in it.

14 In general, we view this case as  
15 the Commission approving its status for this  
16 Company; that is, a competitive status,  
17 and we're going to assume that they're going  
18 to be competitive from now on.

19 Accordingly, it's the Attorney  
20 General's position that any uncompetitive  
21 activities practiced by AT&T in the future  
22 are fully subject to antitrust laws and that  
23 the Commission has not exempted them by virtue  
24 of a general order in this case permitting  
25 them some sort of relaxed regulation. In



fact, the intent of that order would be exactly the opposite, to increase competition.

For example, you will approve an initial tariff if that's correct. Probably you've already approved a tariff for this Company. We would take the position that every term and every condition in that tariff is not considered automatically exempt from the antitrust laws or automatically competitive by virtue of your order in this case. If you wish to compel a particular section of that tariff, it ought to be called out.

The Attorney General takes the position, then, that any anticompetitive activities is exempt under the antitrust laws only to the extent that you specifically called it out in the order and specifically required the Company to engage in it, that is, compelled them, not just permitted them to do it.

In light of the very limited preparation time we have been permitted in this case, the Division will have no witnesses today. However, we will cross examine the

1  
2 Company to the best of our ability given  
3 our tight schedule.

4 Thank you.

5 COMMISSIONER SHANNON: Thank you,  
6 Mr. Gambardella.

7 Now, Mr. Gillespie, do you have  
8 anything further?

9 MR. GILLESPIE: No, Your Honor.  
10 I believe I should mention that we reserve  
11 the right to cross examine the witnesses  
12 presented by the Petitioner.

13 COMMISSIONER SHANNON: All right,  
14 Mr. Morrissey, you may proceed.

15 MR. MORRISSEY: Thank you, Judge  
16 Shannon.

17 At this time, we'd like to call  
18 Dr. Frank Alessio to the stand.

19 While Dr. Alessio is approaching  
20 the stand, I ask the Judges if you do have  
21 copies of the prefiled testimony.

22 COMMISSIONER SHANNON: Yes.  
23  
24  
25

1  
2                    FRANK J. ALESSIO, called as a witness  
3 by and on behalf of the Petitioner, being first duly  
4 sworn, testified as follows, viz:

5  
6                    COMMISSIONER SHANNON:    How do we  
7 want to do this?    Do we want to copy this  
8 32 pages or 33 pages of testimony into the  
9 record, or do we want to identify this as  
10 an exhibit?    It's in the record either way.  
11 It's just a matter of putting it in the  
12 transcript.    Probably a little less expensive  
13 to just identify it as an exhibit.

14                    Any questions of counsel on it?

15                    If not, I'll go ahead and say that  
16 this will be received as Exhibit FJA-1.

FJA-1

COMPETITION AND REDUCED REGULATION  
IN INTERLATA MARKETS

TESTIMONY ON BEHALF OF  
AT&T COMMUNICATIONS OF VIRGINIA, INC.

VIRGINIA CASE NO. PUC 840023  
FRANK J. ALESSIO, Ph.D.

July 27, 1984

COMPETITION AND REDUCED REGULATION  
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COMPETITION AND REDUCED REGULATION  
IN INTERLATA MARKETS

TESTIMONY ON BEHALF OF  
AT&T COMMUNICATIONS OF VIRGINIA, INC.  
FRANK J. ALESSIO, Ph.D.  
JULY 1984

I. INTRODUCTION

A. IDENTIFICATION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Frank J. Alessio. My business address is 13140  
Coit Road, Suite 318, Dallas, Texas.

Q. PLEASE BRIEFLY OUTLINE YOUR EDUCATIONAL BACKGROUND AND  
RELATED EXPERIENCE.

A. I am an economist. I received a Bachelor's Degree in  
Liberal Arts from Southern Oregon College. I have a  
Master's Degree in Economics from the University of Oregon.  
My Doctorate is in Economics and from the University of  
Oregon also. For one year, I was an Instructor of Economics  
at the University of Oregon. I was an Associate Professor  
of Economics at the University of Arizona. I am currently  
an Adjunct Professor at the University of Texas at Dallas.  
I also lecture on the economics of business decisions in the  
MBA program at Southern Methodist University and lecture in  
the Public Utilities Program at Stanford University. I am  
currently the President of Criterion Incorporated, a firm  
specializing in economic, demographic and statistical  
analysis. My work at Criterion is my primary occupation.

I have written more than forty-five economics articles, papers and books. Much of my work, research and teaching has been in the field of government regulation of business activity, with a concentration in public utility problems. My teaching duties include a graduate-level seminar on the economics of public utility regulation and a graduate-level course in microeconomic analysis (sometimes called the theory of price).

I served for more than one year in the Federal Energy Administration where I was responsible for short-run and long-run energy forecasts and for the statistical analysis underlying the FEA's regulatory proceedings. Also, I worked for the Electric Power Research Institute for more than one year where I was responsible for systems analysis, for the integration of supply and demand forecasts and for the analysis of the impact of regulation on the performance of the electric utility industry.

During the last seven years, my work has concentrated on the issues of price, cost and market analysis in telecommunications and electric power. The work has been performed for utility companies and research institutes as well as regulatory commissions.

I have participated in proceedings before regulatory commissions in other states as well as before the Federal Power Commission, Federal Energy Administration and the Congress of the United States.

## B. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to discuss certain issues as they relate to the changing environment in telecommunications. These issues are: the forces shaping the changing environment in telecommunications markets; the importance of allowing open entry into intrastate interLATA markets and allowing all competitors an equal opportunity to compete; conditions that justify reduced regulation and increased reliance on competitive forces in interLATA markets; the benefits of competition and reduced regulation to consumers; and some principles for managing and regulating the changing environment, including a discussion of the appropriate criteria for measuring dominance in a market, and alternative mechanisms for dealing with the economic policy issues faced by the Commission. I believe the actions of the Virginia Legislature and the State Corporation Commission to reduce the regulatory constraints on competitive interexchange carriers and to treat all such carriers, including AT&T, equally recognize the realities of the telecommunications environment. The Legislature and the Commission should be commended for their farsighted and correct actions.

## II. CHANGING ENVIRONMENT IN TELECOMMUNICATIONS MARKETS

Q. WHAT FORCES ARE SHAPING TELECOMMUNICATIONS MARKETS TODAY?

A. Currently, interLATA and local area service markets are being shaped by three interrelated forces: changing market conditions, changing regulatory conditions and a changing institutional structure.

Q. PLEASE DESCRIBE THE CHANGING MARKET CONDITIONS.

A. In recent years interLATA and local area service markets have been characterized by rapid technological change, increasing competitive pressures and expanding customer desires that have created new market opportunities for both existing firms and for new firms. These new market opportunities, coupled with new regulatory rules at both the federal and state levels, opened entry to previously closed markets. This entry included firms from different industries, some regulated and some unregulated - for example, common carriers and resellers in interLATA markets, and coaxial cable companies in some local area service markets. As a result, most telecommunications markets are now contestable, increasingly rivalrous and workably competitive.

Q. PLEASE DESCRIBE THE CHANGING REGULATORY CONDITIONS AND HOW THEY RELATE TO THE CHANGING MARKET CONDITIONS.

A. The changes in market conditions described in my previous answer have been supported by changes in regulation itself at both the federal and state levels.

The changes in federal regulation supporting the changes in market conditions include, for example: (1) the FCC's decision in Computer Inquiry II, which ordered the deregulation of enhanced services and new terminal equipment; (2) decisions which have accelerated the depreciation schedules for plant and equipment; (3) decisions which relaxed restrictions on resale and sharing; and, (4) the decision in FCC Docket 78-72, which suggested that artificially large contributions from competitive services could not be sustained over the longer term.

The changes in state regulation which have supported the changes in market conditions include, for example: (1) allowing relatively open entry into interLATA markets by both common carriers and resellers in most states; (2) approval of flexible pricing tariffs in many states; and, (3) the deregulation of terminal equipment and inside wire in some states prior to the FCC action.

It is important to recognize that, although it has lagged behind market conditions at times, the regulatory process now tends to foster competition and, in this sense, market forces tend to drive changes in the regulatory process over time. Moreover, it now seems unlikely that the growth of competitive market forces, driven by technology and expanding customer needs, could be stopped by regulatory prohibitions over the longer term.

Q. PLEASE DESCRIBE THE CHANGES IN INSTITUTIONAL STRUCTURES IN TELECOMMUNICATIONS.

A. In addition to changing market and regulatory conditions, there have been changes in the structure of the industry. For example, interexchange and local distribution markets have been separated from one another, and new local area boundaries (LATA's) have been constructed. These changes were designed to accommodate the expansion of interexchange competition beyond interstate markets into intrastate, interLATA markets as well. Intrastate, interLATA toll competition now exists and intraLATA competition is now developing, as was apparently contemplated in the Modification of Final Judgement (MFJ). As a result of these institutional changes, competitive entry is now transcending all regulatory and jurisdictional boundaries and the appropriate economic conditions for less stringent regulation of intrastate interLATA markets now exist, with many intraLATA service markets to follow.

A. WHAT ARE THE IMPLICATIONS OF THESE CHANGING CONDITIONS FOR COMMON CARRIERS AND REGULATORS IN VIRGINIA?

A. As competition in most intrastate telecommunications markets intensifies, no telecommunications company -- not even a franchised monopoly -- can behave as if it were insulated from competitive market forces. Similarly, the Commission can no longer regulate any telecommunications common carrier, particularly one whose major business is interexchange service, as if it were insulated from competition.

III. COMPETITIVE MARKET FORCES SHOULD BE RELIED UPON  
TO REGULATE MARKET ACTIVITY WHENEVER POSSIBLE

A. COMPETITIVE ENTRY INTO INTERLATA MARKETS REALISTICALLY  
CANNOT BE STOPPED OVER THE LONGER TERM BY REGULATORY  
PROHIBITIONS

Q. IN YOUR OPINION, IS IT PRACTICAL FOR THE COMMISSION TO  
PROHIBIT COMPETITION IN INTERLATA MARKETS?

A. No, and I believe the actions of the Virginia Legislature  
and the Commission recognize the impracticality of  
prohibiting such competition. There are two principal  
reasons why it is not practical for the Commission to  
attempt to prohibit competition in interLATA markets.  
First, for the reasons described later, when the market is  
competitive, the costs associated with traditional  
regulation can be avoided and benefits to consumers  
associated with competition can be created, if market forces  
by themselves are allowed to regulate market activity.  
Second, the Commission should not attempt to prohibit  
competition because it would not be successful in doing so  
over the longer term.

Q. WHY WOULD AN ATTEMPT TO PROHIBIT COMPETITION IN INTERLATA  
MARKETS BE UNSUCCESSFUL?

A. Competitive market boundaries do not necessarily conform to  
regulatory boundaries or boundaries defined for judicial  
convenience (e.g., the LATA boundaries). Market boundaries  
are influenced by available substitutes, and competitive  
markets are defined as much by buyers going outside of an

area to obtain a product or service as by sellers entering to serve a market. That is, buyers as well as sellers have incentives to find ways to thwart regulatory prohibitions on competitive entry and they are usually successful.

Competitive market activity is the driving force in telecommunications today. It is unlikely that the spreading of competitive entry into all segments of the intrastate toll market can be stopped by regulatory prohibitions over the longer term. While a failure to recognize these trends by establishing rigid entry rules in the interLATA market may slow the spread of competition in the short term, it will only introduce unnecessary inefficiencies into the market as competition inevitably develops over the longer term.

Thus, an attempt to prohibit competition by regulatory rules would require an ever-expanding sphere of regulatory intervention over all potential substitutes as technology continues to create new opportunities for entry into interLATA markets and, as a result, ultimately would be unsuccessful. Competition rather than regulation should be relied upon in all interLATA markets.

**B. COMPETITIVE CONDITIONS WARRANT A RELAXATION OF  
TRADITIONAL REGULATION OF INTERLATA MARKETS**

**Q. WHAT ARE THE GENERAL RESULTS OF COMPETITIVE MARKET  
BEHAVIOR?**

**A. Generally, competitive market behavior causes the products  
and services demanded by consumers to be produced at the  
lowest possible cost (i.e., by the most efficient**



producers). In addition, competitive market behavior tends to drive price toward that cost. Finally, competitive market behavior fosters technological progress because an innovator who produces an improved product or service, or lowers production costs, will be rewarded with greater profitability.

Q. WHAT ARE THE GENERAL ECONOMIC OBJECTIVES OF TRADITIONAL PUBLIC UTILITY REGULATION?

A. The general economic objective of traditional public utility regulation is to produce approximately the same market behavior in the regulated industry that would be produced if effective competition were possible in the industry. To achieve this general economic objective, the principal goals of public utility regulation are the following: to prevent monopoly profits and unreasonable price discrimination; to assure adequate earnings for the regulated firm; and to assure that adequate service is provided to all customers requesting it. This type of regulation usually takes the form of facilities certification, pricing regulation and rate base/rate of return regulation.

Q. GIVEN THESE GENERAL OBJECTIVES, UNDER WHAT SPECIFIC CIRCUMSTANCES IS TRADITIONAL REGULATION A BENEFICIAL SURROGATE FOR COMPETITION?

A. Traditional regulation (e.g., facilities certification, pricing regulation, rate base/rate of return regulation) can be useful as a surrogate for competition where conditions of supply and demand are such that market forces alone cannot

be relied upon to constrain the pricing activities of the firm and stimulate the firm to supply adequate quantities to the market. Such conditions might be present, for example, where the production technology is characterized by significant economies of scale or scope, or where there are significant natural barriers to the entry of new technologies and firms into the market. These conditions are usually referred to as a natural monopoly.

Under natural monopoly conditions, regulation may be required in order to achieve efficient amounts of production by the firm and maintain prices lower than the monopoly price level (i.e., to produce adequate service at reasonable rates). In addition, regulation may be desired to achieve certain social policy objectives (e.g., the subsidization of certain classes of customers) that might not be achieved by market forces alone. Therefore, traditional regulation should serve as a surrogate for competition only in the presence of a natural monopoly or when regulation is the least costly means of achieving certain social policy objectives that might not be achieved by the market alone.

- Q. IN THE PREVIOUS ANSWER, NATURAL MONOPOLY WAS MENTIONED. WHAT IS THE DEFINITION OF NATURAL MONOPOLY AND HOW DOES IT RELATE TO INTERLATA MARKETS TODAY?
- A. A complete definition of natural monopoly should contain two elements. One is a static element that describes the conditions that create a natural monopoly at a point in time. The other is a dynamic element that describes the

conditions that perpetuate a natural monopoly over time. It is important to include both elements because a policy framework for dealing with competition in telecommunications markets can be viable only if it goes beyond static conditions to recognize and respond to the dynamics of the industry as well. The static definition of a natural monopoly is a firm with technology such that any division of its total output into separate production will result in higher total costs of production (i.e., its costs are sub-additive). In other words, if two or more firms produced in combination the same total output as the monopoly and their combined total costs of producing that output were higher, then the cost structure of the monopoly would be sub-additive and the monopoly would be "natural." If their combined total costs were lower, then the cost structure of the monopoly would not be sub-additive and the monopoly would not be "natural." Sub-additive costs can be the result of economies of scale (where per unit costs decline as the output of the firm increases) or economies of scope due to complementarities in production (where two or more products or services can be produced at lower cost together than if they were produced separately, e.g., due to joint use of an input).

The dynamic definition is that a natural monopoly is a market to which no competitors are "naturally" attracted and in which competitors would be unable to remain viable even if the existing firm is pricing at or above its incremental

costs. This means that even if a firm satisfied the static conditions specified above (i.e., sub-additive costs due to economies of scale or scope), it is not a natural monopoly if it cannot be sustained in the presence of the entry of competitors and new technologies into the market.

There are several points to note about this definition. First, it recognizes that a natural monopoly can be created in theory by a broader set of conditions than that described in the static definition. It includes economies of scope as well as economies of scale. Second, it recognizes the economies of scale or scope are not always sufficient to create or sustain a natural monopoly over time as technological change opens the way for competitive entry. Third, it recognizes that a definition of natural monopoly for policy purposes must also take account of the dynamics of industry structure and not focus on the statics alone.

Even though there are economies of scale and scope in telecommunications, the price-to-cost ratios and pattern of subsidies that developed historically, coupled with technological changes, have removed elements of natural monopoly in the provision of telecommunications services. Dynamic market forces, along with the regulatory responses to them, have opened entry and caused competitive pressures to increase. In recent years, toll markets have been characterized by rapid technological change, increasing competitive pressures and expanding customer desires that have created new market opportunities for both existing

firms and for new firms. These new market opportunities, coupled with new regulatory rules at both the federal and state levels, effectively opened entry to previously closed markets.

The question is not whether a natural monopoly existed in the past, or would exist today if history had been different, or even whether a natural monopoly might develop under different circumstances at some time in the future. The question is whether a natural monopoly in toll markets exists today. The most reasonable answer is that there is no clear natural monopoly in toll markets that appears sustainable under current conditions. It would be inappropriate to base regulatory policy decisions on the presumption that any toll market is a natural monopoly.

Q. ARE THERE COSTS ASSOCIATED WITH CONTINUING TO APPLY TRADITIONAL PUBLIC UTILITY REGULATION UNDER CURRENT CONDITIONS IN INTERLATA MARKETS?

A. Yes. The following are some of the likely costs associated with continuing traditional regulation of interLATA markets. First, price levels and structures may not reflect those that would be obtained under competitive conditions (i.e., regulation may create its own price distortions by relying on historical costs or arbitrary cost allocations) and typically cannot change in a timely way in response to market dynamics (e.g., changing demand or supply conditions, changing technology, etc.). Second, the price rigidities associated with traditional regulation create uncertainties

these circumstances, traditional regulation should be relaxed and eventually eliminated so that competitive forces can regulate market activities and the costs associated with traditional regulation can be avoided.

Q. DO TODAY'S COMPETITIVE CONDITIONS WARRANT THE RELAXATION OF TRADITIONAL REGULATION OF INTERLATA MARKETS REFLECTED IN THE COMMISSION'S RULES AND REGULATIONS FOR INTEREXCHANGE CARRIERS?

A. Yes. There is no clear natural monopoly that is sustainable under current conditions in interLATA markets. Moreover, since competition is sufficiently vigorous and regulation sufficiently costly in interLATA markets, there are less costly ways of achieving current social policy objectives. Consequently, today's competitive conditions warrant a relaxation of traditional regulation of interLATA markets.

#### IV. MEASURES OF DOMINANCE IN A MARKET

##### A. DEFINITION OF DOMINANCE

Q. EVEN IF NATURAL MONOPOLY CONDITIONS DO NOT EXIST, OTHER PARTIES, PARTICULARLY COMPETITORS OF AT&T, HAVE EXPRESSED CONCERN ABOUT THE BEHAVIOR OF A DOMINANT FIRM IN THE INTERLATA MARKET SUCH THAT TRADITIONAL REGULATION IS STILL REQUIRED FOR SUCH A FIRM. PLEASE DEFINE DOMINANCE IN A MARKET.

A. A dominant-firm industry is defined as an industry comprised of one large firm and a number of smaller firms wherein the dominant firm sets the market price as if it were a monopolist and allows the smaller firms to sell all they can

which may discourage investment in new and riskier technologies. Third, the introduction of new products and services is likely to be at a slower pace than would be the case in an unregulated market. Fourth, technological innovations are likely to be driven solely by engineering standards rather than customer needs, and cost-saving production methods may be adopted at a slower pace than would be the case in an unregulated market. Fifth, the regulatory process tends to foster regulatory gamesmanship rather than active competition by focusing attention on satisfying the regulator rather than the market. Finally, there are direct costs imposed on society by the regulatory process itself (e.g., the costs of funding the regulatory agency, additional costs incurred by the regulated firm, costs of avoiding regulation, etc.) which are passed on to the public in the form of higher prices and taxes.

Given these costs, traditional regulation is not a cost-effective surrogate for market competition when that competition is sufficient to push a market toward efficient prices and production (i.e., providing adequate service at reasonable rates) and when there are less costly means of achieving most social policy objectives currently attempted through regulation. Therefore, as a previously regulated market becomes competitive, traditional regulation is no longer beneficial as a surrogate for the market. Under

at that price. In the real world, virtually all firms have some control over price (i.e., their ability to command a price above marginal cost), yet they are not necessarily dominant firms. In order to maintain complete control of the market price, the dominant firm must also be able to control entry into the industry, control the pace of technological innovation, and control the development of quality standards and potential substitute products and services. Thus, although the interLATA market consists of firms of varying size, there is no clearly dominant firm, by the economic definition, given the existing degree of contestability and rivalrous activity as discussed later in my testimony.

Q. GIVEN YOUR PREVIOUS ANSWER, IS THERE A REASON TO MAINTAIN A DOMINANT/NON-DOMINANT DISTINCTION IN THE INTERLATA MARKET?

A. No. There is no sound economic reason to discriminate among firms in the market based on a dominant/non-dominant classification or establish differential regulatory rules based on such an artificial classification.

B. MARKET STRUCTURE MEASURES ALONE ARE INAPPROPRIATE FOR MEASURING DOMINANCE IN A MARKET OR FOR DECIDING WHEN COMPETITIVE FORCES ALONE ARE SUFFICIENT TO REGULATE THE INTERLATA MARKET

Q. CAN MARKET STRUCTURE MEASURE (E.G., MARKET SHARE PERCENTAGES AND CONCENTRATION RATIOS) ALONE BE USED TO MEASURE DOMINANCE



IN A MARKET OR FOR DECIDING WHEN COMPETITIVE FORCES ARE ABLE TO REGULATE THE MARKET IN PLACE OF TRADITIONAL REGULATION?

A. - No. Measures of market power based solely on market share data or concentration ratios are not appropriate for measuring dominance in a market or for reviewing the ability of competitive forces to regulate the market. There are both conceptual and practical difficulties with using such measures to assess the degree of competition in a market.

Q. WHAT ARE THE CONCEPTUAL AND PRACTICAL DIFFICULTIES WITH USING MARKET STRUCTURE MEASURES ALONE TO DETERMINE WHEN A MARKET IS COMPETITIVE?

A. The conceptual difficulties arise because such measures presume that the concentration of an industry's output (i.e., share of the market) is negatively correlated with competitive behavior and performance; i.e., they are based on the assumption that the larger the share of the market that is supplied by one or a few firms, the less competitive behavior there will be and, thus, the less competitive the results. However, there is no uniform, consistent theoretical or conceptual link between the structure of an industry and either the intensity of rivalry among firms in the industry or the presence of monopoly results (profits) in the industry. In addition, current empirical evidence does not find a consistently strong positive correlation between concentration and monopoly results.

In addition to the conceptual difficulties with structural measure of competition, there are practical difficulties with applying them accurately. These practical

difficulties include the following: (1) Demand elasticities and elasticities of supply, which are used in some structural measure, are difficult to determine. (2) The appropriate product market is frequently ambiguous and is difficult to define because of the growth of substitutes. (3) The appropriate geographic market is difficult to define. (4) The appropriate time period is frequently ambiguous. (5) The market share or concentration ratio thresholds that would suggest a degree of market power such that competitive behavior is hindered are difficult to determine.

As a result, the Commission should not judge the extent of competition, or assess the position of any firm in the market, on the basis of market share percentages or concentration ratios alone.

- Q. IF MARKET SHARE MEASURES AND CONCENTRATION RATIOS ALONE SHOULD NOT BE USED, WHAT ARE THE APPROPRIATE CRITERIA FOR ASSESSING THE DEGREE OF COMPETITION IN A MARKET?
- A. Measures of dominance based solely on market share data or other strictly structural measures of competition should be replaced by measures based on contestability and rivalrous activity when determining whether a market is competitive and when reviewing the ability of competitive forces to regulate the market.

Q. PLEASE EXPLAIN THE CONCEPT OF CONTESTABILITY.

A. The concept of market contestability recognizes that a proliferation of firms simply is unnecessary to achieve the advantages of competition or to minimize market power. In a contestable market, firms are forced to behave competitively because of the threat of entry or the existence of competitive alternatives. Concentration ratios or market share data alone are not reliable indicators of market contestability.

A market is contestable if there exists opportunity for open entry and exit, the entry can occur with capital that is mobile or fungible (regardless of the magnitude of the capital required to enter initially), and a small price increase by an incumbent firm would stimulate competitive entry or cause customers to switch to alternatives offered in other markets. Markets experiencing rapid technological change become increasingly contestable as technological changes facilitate competitive entry or the development of competitive alternatives.

Q. CAN YOU PROVIDE AN EXAMPLE OF A MARKET THAT WAS THOUGHT TO BE A MONOPOLY BUT WAS, IN FACT, CONTESTABLE?

A. Yes, the postal service provides an excellent example of a market that was thought to be a closed monopoly but which was, in fact, contestable. For most of its history, the U.S. Postal Service operated as a closed monopoly, and entry into parts of the mail delivery market was prohibited by

law. However, recent years have shown that the market was contestable due to the ease of entry into the business of mail delivery. We have also seen that market demand conditions allowed successful entry and viable competition in several segments of the market. For example, competitors provide high-priced, high quality service to one segment of the market in the forms of air courier service and electronic mail service, and low-priced, relatively lower quality service to another segment of the market in the form of surface transport companies. Furthermore, other firms (e.g., MCI, Western Union and Federal Express) have entered the market with electronic mail services. Thus, while the postal service delivers the largest percentage of the mail (i.e., has the largest market share), it is clear that rivalrous activity exists in the market.

Q. PLEASE EXPLAIN THE CONCEPT OF RIVALROUS ACTIVITY.

A. The concept of rivalrous activity focuses on practical measures of competition and recognizes the dynamic nature of competition. Measures of rivalrous activity judge competition on the basis of actual market behavior and performance.

The following are some empirical measures of rivalrous activity in toll service markets: market coverage characteristics to determine whether there are an increasing number of competing companies and whether some are growing in size and capacity, and are increasing the number of areas

served; financial characteristics of the competing companies to determine whether competing companies are growing in size and financial strength and whether the opinion of the financial market is that they are financially viable companies with continuing market potential; entry characteristics to determine the relative ease of entry into the market and the ubiquitous nature of competition; efficiency characteristics to demonstrate the relative efficiencies of competing companies to indicate whether some of the competing companies are viable competitors; price characteristics to demonstrate whether there exists price competition among the competing companies in the market; and, advertising characteristics to indicate whether competing companies are actively seeking customers by advertising and whether such advertising is increasing over time. It is important to note that these points are not a checklist that must be satisfied to determine the degree of competition in the market at a given time; instead, they represent the varied and diverse dynamic conditions that typify competitive markets.

An examination of these characteristics which are detailed in the statistics presented in the testimony of Mr. Wilcox indicates that interLATA markets are not only contestable, but they display significant rivalrous activity and are workably competitive. In addition, the scope and intensity of this competition has been increasing over time.

- Q. PLEASE GIVE EXAMPLES OF THE EMPIRICAL INFORMATION WHICH LEADS TO THE CONCLUSION THAT ECONOMICALLY SIGNIFICANT RIVALROUS ACTIVITY EXISTS IN THE TOLL SERVICE MARKETS.
- A. There has been rapid and extensive entry into the toll service markets in the past few years. MCI, on a national basis, has grown from 280,000 customers in 1981 to 1.7 million customers as of May, 1984. GTE-Sprint has grown from 200,000 customers in 1981 to 1.3 million customers as of May, 1984, and the OCCs are currently acquiring over 3000 new customers per day.

In addition to the numbers of customers, the types of customers selecting the OCCs indicate that consumers are willing to switch vendors in response to price-quality differentials. During 1983 in those areas served by at least one carrier other than AT&T, approximately half of all business customers who spend at least \$50 per month on long distance calls and 19% of residential customers who spend \$25 or more on interstate calls per month were served by a carrier other than AT&T. This statistic is particularly significant when one considers that approximately 90% of all business calls and 50% of all residential calls are made by customers in these categories.

The financial characteristics of the OCCs make it clear that they are strong and viable competitors. MCI's revenues, for example, increased by 236% percent over the last two years, from \$506.4 million for the year ending

March 31, 1982, to \$1.7 billion for the year ending March 31, 1984. The OCCs' combined 1984 construction budgets are over three times larger than AT&T Communications' 1984 budget for additions to new capacity. MCI has announced that it will spend approximately \$1 billion nationally on expansion in 1984 and double that amount in 1985. Sprint has announced that it will double its national network in 1984 with a \$1 billion investment and that it will increase its capacity in Virginia by 3 million route channel miles by the end of 1984.

#### V. BENEFITS OF REDUCED REGULATION TO CONSUMERS

- Q. WILL A RELAXATION OF TRADITIONAL REGULATION, APPLIED TO ALL CARRIERS EQUALLY, BENEFIT CUSTOMERS OF INTERLATA SERVICES SPECIFICALLY AND CONSUMERS IN GENERAL?
- A. Yes, such actions will produce several types of benefits both for customers of interLATA services specifically and for consumers in general. First, competitive parity among carriers coupled with reduced regulation should lead to a decline in the real price, on average, to the majority or interLATA customers. Under natural competitive circumstances, this real price effect might be felt first in the more concentrated market areas, spreading eventually to other areas as competition proceeds. In this case, however, AT&T Communications has committed itself to maintain statewide rate uniformity by service. Accordingly, the general competitive pressures which lead to price reductions

should result in price benefits for all Virginia users of telecommunications services. These price benefits will accrue not only to large customers but to small customers and to a significant percentage of the poor and elderly as well.

Second, competitive parity coupled with reduced regulation should lead to the development of products and services which are more precisely geared to satisfy expanding customer needs because it will stimulate the provision of products and services with qualities and attributes which are market or demand-side oriented rather than solely engineering or supply-side oriented. In contrast, in strictly regulated industries or companies, design criteria are driven more by engineering standards and production technologies than by customer demand. In addition, competitive parity coupled with relaxed regulation stimulates a more timely response by producers to customers' needs and desires. This involves a more rapid provision of desired products and services as well as a more rapid demise of products and services which are not desired by customers.

Third, there would be improved quality of some products and services in the market. In some segments of the market, competitive parity coupled with relaxed regulation should allow customers to experience an increase in the quality of service without an increase in price. In effect, customers receive an increase in value per dollar spent. This is the typical result of non-price competition that characterizes



most competitive markets. Improved quality comes in several forms, such as, improved physical attributes of products or improved technological features of services, improved customer service, and improved information to customers about the options available from vendors and attributes of their products. Information is improved because competition and relaxed regulation create an incentive among firms to disseminate information about their products which enables all customers to make better choices in relation to their needs.

Fourth, competition and relaxed regulation will produce a greater diversity in the provision of products and services. For example, a greater number of options will be available for existing services, new services will be provided more quickly and in greater numbers, and more options of price-quality choices will be available to customers, allowing each to better maximize value per dollar spent.

Finally, competition and relaxed regulation would have ripple effects throughout the economy creating new jobs and stimulating economic growth. There are strong linkages between the telecommunications industry and other important industries in the economy in two directions: there are "downstream" linkages to those industries which use telecommunications services as an important input and "upstream" linkages to those industries which are principal suppliers to the telecommunications industry. As regulatory

reform causes prices for telecommunications services to decrease and output to increase, "downstream" industries will experience decreased costs which will, at least in part, be reflected in lower prices for their products, and "upstream" industries will find the demand for their supply to the telecommunications industry increasing. Both effects will stimulate growth throughout the economy as expansion in the directly linked industries causes expansion in other industries with which they have important trading relationships.

**VI. PRINCIPLES FOR MANAGING THE IMPLEMENTATION OF  
REDUCED REGULATION IN INTERLATA MARKETS**

- Q. CAN YOU PROVIDE THE COMMISSION WITH SOME GUIDELINES FOR MANAGING THE IMPLEMENTATION OF INCREASED RELIANCE ON COMPETITION IN INTERLATA MARKETS WITHIN THE CONTEXT OF THE COMMISSION'S RULES AND REGULATIONS FOR INTEREXCHANGE CARRIERS?**
- A. Yes.** Although some regulatory oversight may be required as a precaution, regulation of interLATA markets should be reduced significantly to provide the greatest flexibility for competitive forces to operate. I believe that the Commission's order of June 29, 1984, provides for a proper combination of regulatory oversight and competitive flexibility at this time. I would like to discuss several guidelines for reduced regulation of interLATA markets which are applicable in Virginia.

First, the Commission's order correctly adopts a policy of open entry for all interLATA markets to ensure a clear opening for competitive firms, new technologies and new

services. InterLATA toll markets should be opened and regulation should be relaxed immediately, with a maximum reliance on marketplace forces to control prices and service quality.

As previously indicated, although the Commission should maintain regulatory oversight and not become involved with the day-to-day approval of the earnings, price levels and rate structures of interexchange carriers as it is with the more traditional public utilities subject to its jurisdiction. The Commission should focus on oversight and monitoring responsibilities to assure itself that, if there are residual pockets of market power in Virginia, they are not being exploited by any carrier. The following are examples of specific oversight activities that could be used by the Commission when monitoring a policy of open entry and competitive parity: (1) Conduct certification and withdrawal proceedings so that the Commission is fully aware of all entry and exit from the Virginia market; (2) Ensure that notice of changes in rates or service offerings to customers, while streamlined, is also adequate; (3) Monitor the type of local access arrangements made available to interexchange carriers and ensure that all carriers are paying the appropriate charges for that access; (4) Maintain a data base of the market in Virginia including the earnings of the industry as a whole and the particular prices and services available to customers in Virginia. These monitoring activities will guard against residual pockets of market power being exploited to the detriment of Virginia consumers.

In addition, the Commission should retain the authority to reimpose traditional regulatory requirements in the event that the competitive marketplace does not function properly or if carriers to abuse the regulatory flexibility granted by the Commission. The threat of this reimposition of increased regulatory review by itself will cause interexchange carriers to act responsibly. The Commission's order and public statements make this policy clear.

Second, the Commission should make sure that the regulatory process is not used by carriers to distort or limit the competitive process. The traditional regulatory burden of proof should be reversed so that the prices, rate structures and rate of return of the interexchange carriers are presumed to be lawful and reasonable. The burden of proving otherwise should be on the party opposed to them. Objections or challenges by a carrier to the prices charged by another competitive interexchange carrier should be specific, and the challenging party should be required to prove both the existence of market power and the exercise of that power. Although price levels can continue to be subject to protest and review by the Commission, they should not be suspended during an investigation of their reasonableness. In this way, the Commission can rely once again on competitive market forces to the maximum extent, and yet retain authority to guard against any potential abuses.

Third, Commission should permit competitive parity among firms in the market so that all firms have an equal opportunity to compete and consumers can experience the full benefits of competition with open entry. The Commission need not be overly concerned with a firm's current size or position in the market as long as entry of new firms is possible, since actual entry is likely to occur if a firm attempts to use its current size or position to earn persistently higher than normal profits. Artificial distinctions between firms competing in the same market (e.g., artificial distinctions between "dominant" and "non-dominant" firms) should not be created or perpetuated. In addition, handicapping some firm(s) would not promote efficient entry of firms, new technologies and new services, nor would it promote the efficient operation of existing firms in the market. For example, maintaining the relative price inflexibility of traditional regulation would prevent the regulated carriers from responding to changes in market conditions in a timely manner, perpetuating a regulatory-induced price umbrella under which all firms could keep their prices higher than they would be otherwise.

As another example, uneven regulation can distort investment decisions by encouraging the unregulated firm to deploy higher cost technologies into market areas protected by artificial price umbrellas, and by discouraging regulated firms from deploying new and riskier technology into newly emerging segments of the information market because of rate

of return restrictions and pricing inflexibility. Both examples show how a short term policy of uneven regulatory treatment between firms in the market can create longer term economic inefficiencies.

Fourth, substitute relationships in the market cannot be ignored by the Commission. Network services are easily substitutable one for the other; i.e., they are easily interchangeable across broad market segments. This relatively high degree of market substitutability permits relatively low-cost, low-risk entry and exit (i.e., hit-and-run competition), allowing competitors to expand their own service offerings or open new geographic areas by interchanging their facilities with common carrier facilities through resale and sharing. The high degree of substitutability also blurs the distinction between customers and competitors, with large customers having the opportunity to become competitors (by installing private systems) and with competitors becoming customers at times (by reselling services). Thus, any regulatory rules imposed by the Commission should not be based on rigid definitions or categorizations of which services are competitive or on artificial market boundaries. If rigid definitions or boundaries are chosen, those regulatory rules would have to be continuously expanded to include all potential substitutes (even those not provided by carriers).

Fifth and finally, the Commission should recognize that competition in interLATA markets poses no threat to universal service. Alternative means for dealing with the

social policy issue of maintaining reasonable prices for network access to local customers are available. Legislators should be encouraged to consider financing a sharply focused, targeted subsidy to residence network access out of general tax revenues. In addition, the Commission should encourage the local operating company to introduce new services and new uses for the local network which would improve the utilization of local facilities, increase local exchange revenues and help support access prices without general rate increases. Moreover, certain rate structures should be permitted by the Commission to allow for more efficient coverage of the local operating company's revenue requirement. For example: local measured service, including a properly administered lifeline service, and other forms of usage-sensitive pricing should be encouraged and should soon become the primary local exchange service offering; services such as directory assistance, local coin telephone service and some private line services (those which are currently priced below their incremental costs) should be repriced to at least cover their costs. Finally, any subsidy to network access should not be a broad-based subsidy, e.g., to all local customers, but should be a sharply focused subsidy to a carefully targeted group of customers.

## VII. SUMMARY OF CONCLUSIONS

Q. PLEASE BRIEFLY SUMMARIZE THE PRINCIPAL CONCLUSIONS OF THIS TESTIMONY.

A. The principal conclusions of this testimony are the following: First, competitive market forces alone should be relied upon to regulate market activity whenever possible. Since there are costs associated with regulation, traditional public utility regulation should only be used as a surrogate for competition where market forces cannot be relied upon. Second, even though there are economies of scale and scope in telecommunications, there is no clear natural monopoly that appears sustainable under current conditions. Thus, it would be incorrect to base regulatory policy decisions on the presumption that interLATA markets are natural monopolies. Third, the Commission should not attempt to prohibit competition to preserve the benefits of traditional regulation because such a policy cannot be successful over the longer term. Fourth, market structure measures alone (i.e., market shares and concentration ratios) are inappropriate for determining when a market is competitive and for deciding when competitive forces alone are able to regulate the market. Such measures should be replaced by measures based on contestability and rivalrous activity. It is clear that the interLATA market displays significant rivalrous activity and is workably competitive, and there is no clearly dominant firm in the market. Thus, traditional regulation is not required in interLATA markets.



Fifth, reduced regulation would produce significant benefits for customers of interLATA services and consumers in general. Sixth and finally, the Commission should consider the following guidelines in implementing reduced regulation. The Commission should adopt a policy of open entry; permit competitive parity among firms in the market; recognize substitute relationships in the market so that the terms and conditions of regulation are not based on rigid definitions or categorizations of what services are competitive or on artificial market boundaries; continue regulatory oversight rather than detailed regulatory review and pursue alternative means for dealing with the social policy issue of maintaining reasonable prices for network access to local customers.

I believe that the Commission's order of June 29, 1984, and its rules and regulations for interexchange carriers if applied to all carriers, including AT&T Communications, recognize the realities of the present telecommunications market, are in accord with sound economic principles, and will bring the benefits of competition to Virginia customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

17 BY MR. MORRISSEY:

18 Q Dr. Alessio, would you, please,  
19 identify yourself and your business address for the  
20 record?

21 A My name is Frank J. Alessio, A-l-e-  
22 s-s-i-o. My business address is 13140 Coit Road, Dallas,  
23 Texas.

24 Q Previously filed with the Commission  
25 and distributed to all parties of record last evening was

a 33-page document, which Judge Shannon has just marked for identification as FGA-1(sic). Was this document prepared by you or under your supervision?

A Yes, it was.

Q And do you have any corrections to this document?

A No, I don't.

Q Do you adopt FGA(sic) No. 1 as your direct testimony in this proceeding?

A I think it was marked FJA, though.

Q I'm sorry. FJA. Do you adopt this?

A I do.

MR. MORRISSEY: At this time, Judge Shannon, I would like to move FJA Exhibit No. 1 into evidence.

COMMISSIONER SHANNON: It will be received subject to questions on cross examination.

BY MR. MORRISSEY:

Q Dr. Alessio, would you, please, give a brief summary of your testimony.

A I will. My summary is as follows:  
The economic condition of the interexchange telecommunication market in Virginia indicates that there are

contestable, increasingly rivalry, and workably competitive. Although some regulatory oversight may be required with caution, regulation of interLATA markets should be reduced significantly, provide the greatest flexibility for competitive forces to operate.

I believe that the Commission's Order of June 29th provides for a proper combination of regulatory oversight and competitive flexibility at this time. There is no economic reason to expect that streamlined regulation will cause rural routes to be abandoned or rural services to be priced exorbitantly high.

The Commission's Order correctly adopts the policy of open entry for all interLATA markets, to assure a clear opening for competitive firms, new technology and services. Regulation should be relaxed if maximum reliance on marketplace forces to control prices and service quality.

The Commission should maintain regulatory oversight but not necessarily become involved with the day-to-day approval of earnings, price levels, and rate structures of the interexchange carriers as it is with the more traditional public utilities subject to this jurisdiction. These monitoring activities will guard against procedural pockets of market power being

exploited to the detriment of Virginia customers.

In addition, the Commission should retain the authority to reimpose traditional regulation-- excuse me-- traditional regulatory requirements in the event that the competitive marketplace does not function properly or its carriers abuse the regulatory flexibility granted by the Commission.

The threat of this reimposition of increased regulatory review by itself will cause any interexchange carriers to act responsibly. The Commission's Order and public statements make this policy clear.

The Commission should permit competitive parity amongst firms in the market so that all firms have an equal opportunity to compete and consumers can experience the full benefits of competition with open entry.

The Commission need not be overly concerned with a firm's current size or position in the market as long as entry of new firms is possible since actual entries likely to occur if the firm intends to use its current size or position to earn persistently higher than normal profit.

Artificial distinctions between firms competing in the same market; for example, distinctions

drawn as to dominant and nondominant firms for regulatory purposes should not be created or perpetuated.

In addition, the handicapping of some firms would not promote efficient entry, new technology or new services, nor would it promote the efficient operation of existing firms in the market.

I believe the Commission's Order of June 29th and its rules and regulations for interexchange carriers if applied to all carriers, including AT&T Communications, recognize that the realities of the present communications market are in accord with sound economic principles and will bring the benefits of competition to Virginia customers.

That also concludes my summary statement.

MR. MORRISSEY: Dr. Alessio is available for cross examination.

COMMISSIONER SHANNON: Mr. Gillespie.

#### CROSS EXAMINATION

BY MR. GILLESPIE:

Q Dr. Alessio, one item. You mention that the Commission has the alternative of reimposing regulation if competition should fail. Do you have any

criteria by which the Commission could recognize if competition has failed?

A I do, Mr. Gillespie.

Q Please elaborate.

A I would be happy to. I think the appropriate criteria is not one of a mechanical formula. I do think there is one that the Commission has to apply with its own judgment and experience in Virginia regulation, and I would propose that two issues or two considerations be used in that.

The first is to maintain an open channel for potential complaints from customers and to be able to have the Commission Staff review those complaints, judge their merits, bring them to the attention of the Commission.

Second is to maintain an avenue of open complaint for all of the interexchange carriers. However, there, I think, Mr. Gillespie, the rules and regulations have to be a little bit tighter. I think the Commission needs to protect against other carriers using the regulatory arena for competitive gamesmanship and to use the regulatory arena to limit what other competitors might do in the market.

Therefore, I think that the burden of

proof should be on the complaining carrier. That burden of proof should go toward a demonstration of an exercise of possession and exercise of market power.

In the meantime, while a complaint is underway, I do believe that the prices that have been put into market should take in place.

So I think the focus should be one of monitoring customer complaints with the Staff having the ability to look at those complaints, judge their veracity, bring them to the Commission for action. The second should be an avenue of complaint for carriers, but there it should be solely one of whether a market power exists, and more important than that, whether that market powers that exists takes an exercise for the abuse of the customers.

Q Well, if we were to-- if the Commission were to look at and see that somebody is exercising market power, how could we determine that exercising that market power in a manner that shows that there is no competitive activity and no true competition?

A I think that the way we can determine if they're exercising that market power is in terms of, for example, pricing actions. Where it could be very similar in the way to which an antitrust issue of market power



might be looked at. We might be interested-- we would be interested in knowing whether the firm has consistently raised their real price of telecommunications persistently and increasingly above its true economic costs and have used those to the disadvantage of particular customers, that is to say, it's done it in places where there is not at least one other competitor that's available.

I don't know if I made that very clear, Mr. Gillespie.

Q Well, to go about the monitoring of price, to make sure that it's not significantly above cost, what kind of data or reports might the Commission need?

A I think that an important role for the Commission, and particularly the Commission Staff, as they move into the new competitive environment, the interexchange one, telecommunications is one of monitoring the market. I think that's going to be a very critical role.

Along those lines, I do think the Commission Staff needs to begin to establish a data base that monitors things like the growth of the capacity of carriers, that begins to look at the cost of providing service from the carriers. I think a lot of it is things that probably the Commission is already doing. All I'm

suggesting is that that same information base be used in a slightly different way, be used in a streamlined regulatory manner rather than rate case type proceeding. So I do think a lot of what is needed is probably already in place in Virginia.

MR. GILLESPIE: Thank you,

Dr. Alessio. No further questions.

COMMISSIONER SHANNON: Mr. Gambardella.

MR. GAMBARDELLA: Yes, Your Honor.

CROSS EXAMINATION

BY MR. GAMBARDELLA:

Q Dr. Alessio, what you were talking about before was a firm abusing its market power, and then the Commission would take some action. Is that the gist of it?

A That's correct.

Q And what would that action be?

A Well, that action can be-- can follow a number of forms. First, it could be a reimposition of traditional regulatory review.

Q I'm just asking this. That's, in fact, what the rules provide for in Virginia, is it not?

A It's my understanding.

2 Q Right.

3 A That's correct. And, of course, that  
4 is a very hard step; and if the evidence in the case  
5 warranted it, it would be an appropriate step.

6 In addition to that, the remedy might  
7 be reduction in rates and a refund to existing customers.  
8 Those kinds of things, refunds have happened in the public  
9 utility area before. It's a very well known procedure.

10 Q In effect, what you would be saying  
11 is place more restrictions on that one competitor which  
12 has abused its market power, is that correct?

13 A In a way, that's what I'm saying, but  
14 what I'm saying is something more important than that first.  
15 At first, I'm saying give them the opportunity to demon-  
16 strate that the market is competitive and that streamlined  
17 regulation and flexibility in the market will not be abused  
18 because the Commission does have the ultimate constraint of  
19 reimposing all of the conditions of traditional regulation.

20 Q I assume you're familiar with a man  
21 named Alfred E. Kahn?

22 A Yes, sir.

23 Q He has an article in the latest issue  
24 of Public Utilities Fortnightly. Have you read that?

25 A No, I haven't.

Q In that article, after discussing many of the things you discussed in testimony of this case, and I quote, "It does not mean that I regard asymmetrical, residual regulation and competitive handicapping as wholly unnecessary. There does remain, in principle, the danger of cross-subsidization of competitive offerings by elevated charges to captive customers."

Do you agree with that?

A The potential of cross-subsidization of product line exists in every market. The potential for it exists in every market. It doesn't matter whether it's a regulated public utility or an unregulated public utility.

Q I'm not talking about product line necessarily. I'm talking about elevated charges to captive customers cross-subsidizing competitive customers.

A Again, my answer would be the same. I don't disagree with your statement. The only point I'm trying to make is that that's a generalized condition in the market against what most of the antitrust laws are designed to protect. There is no reason to presume that would happen in streamlined regulation.

Q Is there a reason to presume that if one firm has the ability to serve all customers, then the

others don't?

A I'm sorry, I didn't hear.

Q Is there a reason to presume that if one competitor has the opportunity and capacity to serve all of those customers, then other companies do not have that opportunity?

A No, I don't think that is a reason to do it. And if you don't allow the ubiquitous companies to respond to competition in the market, that what, in fact, what you will get is precisely, I think, the kind of rate distortion that people will be trying to avoid to the extent that you don't let that company compete. If you do, you create a price umbrella under which the other firms will come in; and as a result of that, all prices everywhere are higher than they should be.

And in addition to that, the only place that the discount would then be offered would be only in those places where the other carriers have entered. It seems to me to be a superior piece of streamlined regulation to allow the rather relatively ubiquitous companies to respond and respond everywhere.

Q So that the customer who has only one option in a rural situation should be subject, in the public interest, to the possibility that the ubiquitous

2 company would charge them a much greater rate, perhaps  
3 much greater than cost, in attempt to cross-subsidize  
4 another customer who is in a competitive market until  
5 somebody can find that out and remedy the situation.  
6 Is that fair?

7 A That's not quite correct. I mean,  
8 you're presuming a bad result, which need not occur.  
9 There is no economic reason to believe that rates under  
10 cost circumstances would be deaveraged in the way that  
11 you describe, that they would be deaveraged.

12 In addition to that, there is no  
13 reason to presume that you could set up a strawman problem  
14 and continue to impose very rigid set of handicaps in a  
15 market that is increasingly rivalrous and workably  
16 competitive to stop a problem that probably is not going  
17 to occur when it comes to the cost in not allowing the  
18 benefits of competition spread to those various customers that  
19 you wanted to protect. That's the other side of the coin.

20 Q Did you make a study of Virginia  
21 revenues to cost market?

22 A No, I have not.

23 Q So you don't know whether the market  
24 in Virginia will be rivalrous or not?

25 A Oh, the market in Virginia will be

rivalrous. There are other carriers currently in the market; facilities based carriers; there are resellers in the market; there are a number of firms who were in the room here this morning and are in the room today that have applied for certification. It is a contestable, rivalrous market.

Q It is a contestable market, is that your statement?

A Yes.

Q Not a contested market; it's a contestable market?

A It is a contestable and contested market.

Q Suppose the business objective of-- let's not say AT&T-- let's say MCI came into the market pattern and suppose the business objective of MCI was to use that what power it had to gain a sum of money, and it knew that it could do it; it knew that it would raise its prices, and it could gain a sum of money in that way because-- this is the critical assumption-- that it would take some time for AT&T to respond to those higher prices and be able to compete again. Is that a potential business judgment of these people?

A I suppose it's a potential business

2 judgment of people, but it doesn't seem like a very  
3 prudent one. It's one that will maximize their com-  
4 petitive losses, not minimize their competitive losses.  
5 It's one that's not very customer friendly. I would advance  
6 the hypothesis that if we go into the new environment,  
7 one of the things that all interexchange carriers want  
8 to be is customer friendly. I see no reason to believe  
9 that any of the companies want to abuse its customer base  
10 in that fashion, particularly, the market potential of  
11 streamlined regulation could be lost when such an abuse  
12 would cause the Commission to reimpose traditional  
13 regulation. That potential penalty is so great and the  
14 cost so high that I don't believe anything will happen.

15 Q But you made no study of what will  
16 happen in Virginia?

17 A That's correct.

18 MR. GAMBARDELLA: That's all I have,  
19 Your Honor.

20 COMMISSIONER SHANNON: Mr. Marmon.

21

22 CROSS EXAMINATION

23 BY MR. MARMON:

24 Q Good afternoon, Dr. Alessio. I'm  
25 William Marmon of MCI.



A You say it's Marmon?

Q Marmon. It is your testimony, is it not, Dr. Alessio, that this Commission should regulate totally the rates of AT&T in Virginia, today or now?

A This-- my proposal in this testimony is not deregulation. My proposal in this testimony is streamlined regulation. I do think that our priority of first instance, when-- after a certification proceeding and the first set of rates are established, then at that point I think rates should no longer be deregulated.

Q I'm so sorry, I'm misunderstanding you. Are you-- is it your testimony that as a petition of AT&T to have its rates deregulated? We're not talking about the other cautions that you've mentioned, but its rates, deregulate totally without qualification, that the petition should be granted?

A If I understand your question, my answer is yes. I'm only objecting-- and I don't mean to be picking nits. I'm only objecting to the use of the word "deregulation."

Q I'm talking about deregulation of rates.

A Yes. Although this does say that the rates of priority will not come under the review of the

Commission, there is the Commission's ability to reimpose review of those rates. Therefore, there is still regulatory oversight.

Q But not of the rates?

A Potentially, yes, of the rates.

Q The ability to reimpose regulation of the rates is the only regulation, I take it?

A And the ability to use the threat of reimposition as a stick to keep people aligned is always there. This is not deregulation in the sense of turning the companies loose and saying, "We will never see you again; we are not going to watch your activities."

Indeed, the proposal is and the Commission's statement is that the activities will be monitored. That is not deregulation to me. That is regulatory oversight; that's some regulatory forbearance, but it still is regulatory monitoring and regulatory review.

Q If the petition of AT&T is granted, AT&T of Virginia will have the opportunity to deaverage its rates, will it not?

A In some legal sense?

Q No, in some pricing sense.

A I'm sorry, Mr. Marmon. Did you say

that they would have--

Q They'd have the option, business option to deaverage their rates; charge more for one locality for the same distance as it would for the same distance in another area. That would be an option.

A As I understand it, that they would have that option--

Q All right.

A --but so would you; so would anybody. That doesn't necessarily mean that--

Q You've answered my question. Would you give us a brief definition of what deaveraging of rates is in your understanding. I tried, but I didn't manage.

A I'm sorry, I didn't hear.

Q I say I tried just in the last question, but I would like to hear you, your definition of deaveraging of rates.

A Well, deaveraging of rates can take place potentially in a number of different ways just as the deaveraging of any price structure can take place in a number of different ways. It could be, for example, geographic deaveraging. That's the one that I think is least likely in the current environment and in the near

term.

It could be deaveraging of a form that says that there will be a properly developed discount schedule for high volume users, and that's a form of deaveraging, but it's not geographic deaveraging because that same schedule of discounts is available to all users regardless of where they are.

There could be special peak and off-peak prices. That's a form of-- that's a form of deaveraging the rate structure. That puts one level of pricing, you're on the peak; another level of price when you're off peak.

The time-of-day discount are another form of deaveraging.

So, actually, there are a multitude of ways in which a product of service can be deaveraged. Most of those, however, in most markets are applied uniformly to the entire customer base that fit within that category.

Q Thank you. Now, if AT&T chose to exercise the business option that would be available to them if the petition is granted, would it be able to raise rates in areas where it has monopoly customers and lower them and rates where it faces competition?

2 I'd like a yes or no answer if you can do it that way.

3 A Hypothetically, yes, but--

4 Q Okay, thank you.

5 A --but the premise of your question--

6 Q If you need to explain it, you can,  
7 but I would like to-- you to just answer-- try to answer  
8 the specific question as much as you can.

9 A I will try.

10 COMMISSIONER SHANNON: He can qualify  
11 his answer. We're searching for truth here,  
12 Mr. Marmon.

13 MR. MARMON: Yes, sir, I know, and  
14 if he wants to qualify--

15 COMMISSIONER SHANNON: I'm reminded  
16 one time when Senator Howell was in here,  
17 he asked the witness to answer yes or no,  
18 and the witness said, "Yes or no." So we  
19 really don't want that, but we let the  
20 witness qualify his yes if he wants.

21 THE WITNESS: Unfortunately, Judge,  
22 I wasn't that clever. I didn't think of that.

23 A (Continuing) All of that, of course,  
24 is theoretically possible, but what's of concern here is  
25 the reality of what's likely to happen.

2 Q Is this a qualification, or is this  
3 something else? I want a qualification.

4 A This is a qualification of the yes.  
5 I don't believe it would be a price increase. I think  
6 more than likely--

7 MR. MARMON: Excuse me; I'm sorry.  
8 If Judge Shannon wants to hear this, I'd be  
9 delighted, but--

10 COMMISSIONER SHANNON: We'll let  
11 him share. I know that you've got a point;  
12 you want to make it; you'd like to have it in  
13 the record yes so that you could argue on  
14 brief and on appeal what this witness says.  
15 I think the expert is entitled to explain  
16 his yes answer.

17 MR. MARMON: I think he is, too,  
18 Your Honor. I would like to-- the purpose  
19 of cross examination, or one of them is to  
20 try to bring out the implications of what  
21 the opposing side is trying to do, and I  
22 think it can be best done if I could get the  
23 answer to the question without a long speech.  
24 And if he wants to give that speech on  
25 redirect, that would be fine.

COMMISSIONER SHANNON: Well, I agree that you all should keep your answers as short as possible; but at the same time, we're not going to prevent him from qualifying his answer.

MR. MARMON: All right.

THE WITNESS: Could we start again? I mean, would that be offensive, Your Honor, just start this whole line and maybe got it back on track?

BY MR. MARMON:

Q I'm asking a hypothetical question.

A I understand.

Q If the petition of AT&T is granted and it exercises its option and it may not in the real world of deaveraging its rates, would that not mean that one option that it has would be to charge higher rates to those customers for whom it was the only carrier and lower rates to customers in areas where they face competition?

A Hypothetically and theoretically, that is possible. However, I don't think it will happen that way.

Q That's not the question.

A But I would like to qualify what you mean by-- what I mean by higher rates in response to your question. My expectation would be this: That if that kind of geographic deaveraging took place, that it would take place not in the form of the real price of telephone service going up in one place and down in the other, if that were to happen, it would be more likely that it would go down in one place by more than it would go down in the other place. My expectation is that the competitive inroads in telecommunications are going to push the real prices down all over.

COMMISSIONER SHANNON: Are you saying true competition really pushes everything down towards cost?

THE WITNESS: Towards cost, that's correct. And in some areas it may just go towards cost faster than in other areas. That's the point I'm trying to make.

I didn't mean to be argumentative, but Mr. Moran's(sic) question implied to me that he was trying to state it such that the prices would be jacked up in a monopoly area and pushed way down in some other area, and I don't think that's going to happen.



BY MR. MARMON:

Q It's Marmon.

A Marmon.

Q And what I'm trying to do here is explore the ramifications of the possibility of deaveraging, the theoretical possibility. I'm not interested at this point in your opinion as to what might happen. I would like to explore you in your expertise as an economist the ramifications, extreme though they may be, and unrealistic even, if that is your opinion, but I would like to see what they are, what the theoretical possibilities of deaveraging are, and I would--

A That's fine with me, Mr. Marmon, as long as you don't later conclude that those were, in fact, my opinions.

Q Now, is one of the possible results of deaveraging that AT&T could set its prices below cost in areas where it has competition?

A Again, hypothetically, that could happen in a regulated or unregulated market, but the nature-- the notion of pricing below cost to make it up somewhere else, that's an imprudent business decision, and it's not one that is perpetuated for a long period of time.

2 Q Would it be a competitive tool, if  
3 AT&T wanted to drive its competitors out of business in  
4 Virginia, would deaveraging, the ability to deaverage its  
5 rates be helpful?

6 A It would be helpful for them to meet  
7 that competition; and if those competitors are not truly  
8 viable economic competitors, then a reduction in rates  
9 might cost some of them to exit the market, that's true.  
10 Of course, in competition, there's always winners and losers.

11 Q Here is another question about  
12 possibility of deaveraging. Is it possible that the  
13 deaveraging could result in cross subsidy of revenues from  
14 areas of monopoly customers to areas of competition?

15 A Theoretically, it's possible, but once  
16 again, with open entry, the indications of not only in  
17 theory but in market practices, that that can't be  
18 perpetuated because what that does is spreads the entries  
19 to the area of the service that is generating the subsidy.  
20 Theoretically, that can all happen, Mr. Marmon, but you're  
21 looking at a very narrow piece of the hypothetical possi-  
22 bility.

23 Q All right. Now, you testified, I  
24 think in response to Mr. Gambardella, that there are  
25 different ways to deaverage, not-- one was geographic

deaveraging, and you mentioned several others; discount; peak, off-peak pricing.

Now, if AT&T of Virginia had a policy against deaveraging, would that policy necessarily include all forms of deaveraging that you mentioned?

A I don't believe so.

Q Why not?

A Well, because AT&T Communications of Virginia, as well every other telephone company that I can think of in the United States has already deaveraged rates in one form or another. They have peak and off-peak prices; they have WATS services, which is essentially a discount against message toll service; they have private line services; on and on, and the deaveraging has already occurred.

Q Well, what would it mean--

A But how could I say that it would not, would never?

Q What would it mean to you, Dr. Alessio, if Mr. Wilcox told you that AT&T had a policy against deaveraging?

A What that means to me is that the Company has a policy at this time to not deaverage on the basis of geographic boundaries, to not say that I'm going-- I'm not going-- the policy, I think says this: That the

2 Company will not at the present time separate out rural  
3 customers from urban customers and charge them different  
4 prices simply because one is a rural customer and one is  
5 an urban customer.

6 Q But, nevertheless, it could if the  
7 result of deaveraging by these other being form discounts  
8 and other pricing mechanisms would have the same effect  
9 as deaveraging.

10 A No, in fact, the point is just the  
11 opposite. The other forms of deaveraging are insensitive  
12 with respect to geography, and in fact, it makes the same  
13 discount schedule available everywhere across the service  
14 territory.

15 Q Bulk discount is insensitive to  
16 geography?

17 A If you're a high volume customer, it  
18 doesn't matter whether you're in the north end or the south  
19 end of the State, whether you're in an urban area or rural  
20 area. If you're a high volume customer, you get high  
21 volume discount.

22 Q Are there any characteristically high  
23 volume customers in rural areas?

24 A Frequently, there are. Frequently,  
25 there are big manufacturing facilities; even government

installations that tend to locate in rural areas. And most rural areas have hospitals. They tend to be high volume communications users. And many rural areas have universities. They tend to be high volume telecommunications users. There are quite a number of them.

Q Now, I would like to explore with you a little, Dr. Alessio, the bases for your conclusions that this Commission should, in fact, deregulate the rates of AT&T. In coming to this conclusion, did you take into consideration the number of companies providing service in Virginia?

A Yes.

Q Did you take into consideration the geographical availability of service from other companies in Virginia?

A My answer is yes, if I understand what you mean by the "availability of service from other companies."

Q Do I need to repeat the question?

A Other common carriers?

Q Other companies is the question.

COMMISSIONER SHANNON: By "other companies," what do you mean?

MR. MARMON: I mean other telephone

companies, other companies that provide--

COMMISSIONER SHANNON: Independent companies and OCCs and interexchange-- everything?

MR. MARMON: Yes.

COMMISSIONER SHANNON: Okay.

A My answer is yes.

Q And did you take into consideration the quality of service available from other companies in Virginia?

A Yes.

Q And did you take into consideration the market power that AT&T holds in the intrastate long distance market in Virginia?

A Yes.

Q And did you take any other factors into consideration?

A That's a pretty good list. I did, and I think it's what you might call a relatively subjective factor-- I have noted, or at least by what I have noted, it's my opinion that the nature of competition in telecommunications not only has the geographic and quality kinds of parameters that you talked about, but it also seems to be currently one of the most intensive rivalries

that seems to be developing in U. S. market. And the point I'm trying to make is there almost seems to be a personality about it. I mean, it seems to be one of the few high flying industries that we have right now, and there seems to be this renewed spirit of competitive rivalry.

I guess what I want to say is that it's my opinion that most of the companies that have applied for certification here and most of the companies providing service across the entire United States are intensively rivalrous in their attitudes toward one another. And so I think there is this attitudinal feeling that is also in the market. They intend to be tough competitors.

Q Now, I'd like to go through the list again and have you tell me how it is or what-- how you consider it, how you dealt with these various factors.

The first element I asked you about was your number of companies providing service, number of other companies, other than AT&T. What-- how did you factor this consideration into your judgment?

A Well, that's fairly simple to do. The way that you do it is that you notice that they're there. There are four other common carriers that are currently in the State. I understand most of that traffic, but not all

of it, is to be interstate, although I did notice that in one of the statements made by Mr. Moore that MCI is carrying some intrastate traffic currently.

So they're in the State; they've got presence in the State; they're ready to expand in the State. In addition to that, there are 18 or 20-- I've forgotten the precise number of-- resellers currently in the State. There are digital termination systems currently in the State, and there is a long list of private systems that exist in the State of Virginia, all of those indicate the presence of competition. All of those indicate that there are firms that have dedicated plant and equipment to providing service in the State of Virginia. And I don't think they're here to play games; I think they're here to compete.

Q Thank you. Now, the second element in the list is the geographic availability of services from other companies. And what were your thoughts with respect to that element?

A Well, I noticed that the service that was available from the other common carriers and the resellers were spread across, if I have my numbers correctly, approximately 48 or 50 cities throughout the State of Virginia. That's a fairly reasonable geographic



spread; and in addition to that, I noticed that there were some of those cities where maybe perhaps there was only one alternative vendor to AT&T, but in others there were as many as nine or 10 or 11 for different kinds of services.

Q Do you know who the largest of the competitors of AT&T in Virginia is?

A No, I don't, no.

Q Do you suspect that MCI is one of the largest?

A Well, I would imagine they're one of the big kids, definitely.

Q Do you know how many cities in Virginia MCI serves on an interstate basis?

A I believe it's eight or nine; and if I'm incorrect, I'm sure you're going to tell me, but I think that's the-- I think that's the number.

Q Do you know how many cities Sprint serves on an interstate basis in Virginia?

A My recollection is that it's four or five.

Q Now, do you know what percentage of the population is in an area that is servable by MCI on an interstate basis?

A No, I don't. I don't recall that number. I remember seeing a number like that; I don't recall that. I could find that out for you if you'd like.

Q Do you know the percentage of population in the State of Virginia that has access to any alternative carrier?

A Again, I'm sorry, I don't remember. I looked at those numbers. I'm impressed by what can happen not only in this State but other states. There has been some competitive activity.

Q Well, do you remember seeing the numbers?

A I don't remember a Virginia number, but I can-- I'll tell you--

Q Well, that's the number we're looking for.

A I know it's the number you're looking for, but--

Q I'm not asking you about national numbers right now. I'm going to come to that.

A All right.

COMMISSIONER BRADSHAW: Didn't your client say this morning that within a year he'd have points of presence in all LATAs and would

offer service everywhere in the State? Am I remembering Mr. Cox correct?

Didn't he say within a year?

MR. MARMON: I think he said we would have a point of presence.

COMMISSIONER BRADSHAW: Would he not be able to serve anyone in the State?

MR. MARMON: And would be able to serve, yes..

COMMISSIONER BRADSHAW: I'll go back and look at the record.

MR. MARMON: But you can't serve everyone on the basis of having a point of presence in each LATA. You have to have equal access.

COMMISSIONER BRADSHAW: Go ahead. I'm sorry, I didn't mean to interrupt you. I'll look it up for myself.

BY MR. MARMON:

Q But, Dr. Alessio, in considering the areas in which competitors of AT&T do, in fact, serve, in considering that element, you did learn, did you not, that there are some areas where AT&T will have no competition?

A Well, it would be my expectation that

2 there would be some areas where at least for some period  
3 of time there might not be an alternative vendor. I  
4 wouldn't want to make the statement that forever would  
5 be the time-- would be the case; excuse me. Communications  
6 technology is changing very rapidly.

7 Q Right.

8 A Not only for interexchange facility,  
9 but for outside plant and new facilities as well. We're  
10 going to see some enormous changes very quickly in the way  
11 the spread of competition goes into sparsely populated areas.

12 Q The third element on the list of elements  
13 that you considered was the quality of competition. And  
14 with respect to the quality of competition, did you acquaint  
15 yourself with the schedule for implementation of equal access  
16 in Virginia?

17 A Not the precise schedule for each and  
18 every office, but the overall time frame, as I remember,  
19 it was a 1986 time frame.

20 Q 1986 time frame for what?

21 A For a fairly large percentage of equal  
22 access in the State of Virginia-- I think the number was  
23 90 percent-- provided by C&P Company.

24 Q Do you know how much implementation  
25 to equal access there will be for 1985?

A I don't recall that, no.

Q Do you know how much implementation of equal access has occurred to date?

A Yes-- I have forgotten. It is available in one exchange, I think; maybe it's more than one exchange. But I want to be careful in your not misunderstanding my statements. Equal access is not a pre-condition to equal competition.

Q I haven't asked that question yet.

A No, but you're suggesting it.

Q I'm asking-- I'm trying to flush out the elements that you consider on the issue of competition.

A I know, Mr. Marmon. That's why I'm trying to respond. I'm trying to tell you that--

Q And I'm asking you about equal access implementation now. Are you aware that MFJ is exempt from conversion, switching their electromechanical switches that have less than-- serve less than 10,000 customers?

MR. MORRISSEY: Judge Shannon, at this point, I'm going to object. I was going to object earlier to the question on equal access, but I did want to have Dr. Alessio address that if it was in any way relevant to his testimony. We have proffered the testimony

2 of Mr. Schell who can address all these issues  
3 with Mr. Marmon, and I don't think it's appropriate  
4 this line of questions be continued, unless, of  
5 course, Mr. Marmon would let Dr. Alessio explain  
6 equal access implementations are for what  
7 Mr. Marmon calls the quality of competition.

8 COMMISSIONER SHANNON: Do you want to  
9 respond to that, Mr. Marmon?

10 MR. MARMON: I am trying to derive  
11 the bases for the expert's opinion, and he stated  
12 the quality of competition, one of the bases,  
13 and it happens to be also to be one of the  
14 statutory bases. I think that questions about  
15 equal access and about other aspects that affect  
16 the quality with which competitors are able to  
17 compete with AT&T is highly relevant.

18 COMMISSIONER SHANNON: I think you  
19 have to let him answer that from an economic  
20 standpoint; Mr. Schell, the other witness, from  
21 a technical standpoint. I realize it's sometimes  
22 difficult to distinguish between economics and  
23 technical aspects of it. If you're asking the  
24 question strictly from an economic standpoint,  
25 yes, you can go ahead and ask it.

BY MR. MARMON:

Q In making your economic judgment about the quality of the competitive forces or competitive elements, did you investigate the number of customers in Virginia served by independent telephone companies?

A Yes. And once again, I can't repeat what that number is to you. But the point is it's not a numerical calculation. For there to be effective competition, there does not have to be equality of access. And, in fact, the OCCs have proved that over the past ten years that what you allege to be inequality of access is not a barrier to entry. You have grown very rapidly and become a very large company.

In addition to that, there is no axiom in economics that says every competitor in the market must provide precisely the same service at precisely the same product under precisely the same conditions and deliver it precisely the same way. That is not the case. It never has been.

Q Was your answer to my question about whether you consider independents, yes, you considered them, but you don't know how many there are?

A I do not recall the number of them.

Q Now, in looking at your economic

judgment about the quality of competition in Virginia, did you become aware that in Virginia customers who do not presubscribe to any common carrier, any inter-exchange carrier, will be given to AT&T on a default basis?

A That's correct.

Q Does that have an economic impact on the competitive forces in the State?

A I don't really believe that it does because what I think you're after is the high volume customer, and more than anything else, I really don't think you care much about any of the low volume customers, and perhaps you do, but in and of itself, simply a customer makes no choice and, therefore, is assigned to a particular carrier seems to me doesn't change the nature of the intensity of the competitive environment. Now, perhaps that's something that this Commission should talk to C&P, but I don't know that that necessarily is advantageous to AT&T Communications or disadvantageous to MCI.

Q You don't know that having the default traffic go to AT&T is disadvantageous to MCI?

A That's right, in terms of your ability to be successful in the Virginia market.

Q And you think that all default customers will be low volume customers?



2 A Oh, possibly not, but I think they  
3 largely will be.

4 Q Do you know what the percentage of  
5 customers that were default customers in Charleston,  
6 West Virginia, was?

7 A No, I don't. I do remember reading,  
8 though, how much you have grown in West Virginia. There  
9 was an interesting article in The Wall Street Journal about  
10 it last week.

11 Q Dr. Alessio, do you consider the  
12 inferior quality of the interconnection currently provided  
13 to the OCCs, do you consider that as an economic impact  
14 with respect to equality of competition?

15 A Well, if you mean by "equality of  
16 competition" the ability of the vendors to compete with  
17 one another, well, yeah, I think--

18 Q I don't mean that; I mean the quality  
19 of the services provided by the competing firms.

20 A I don't know that-- I don't know that  
21 there, again, is that much difference. I mean, I understand  
22 what you're asking me, but, again, I want to make the point  
23 that for a market to be competitive, not every vendor has  
24 to provide exactly the same service under exactly the same  
25 circumstances under precisely the same conditions, and

2 deliver it exactly the same way. The notion of your  
3 customers dialing more numbers than an AT&T customer has--  
4 doesn't seem to have stopped you from growing and growing  
5 very rapidly in the market. I'm not sure that that is in  
6 any sense a true barrier to competitive activity. It's  
7 clearly not a barrier to entry, and that's what's at issue  
8 for streamlined regulation.

9 Q Dr. Alessio, I want you to qualify--

10 A Well, I did consider it. That's my  
11 conclusion.

12 Q But you're not really answering my  
13 question.

14 A Mr. Marmon, I really am trying. You  
15 asked me if I considered them, and my answer is yes, and  
16 I'm trying to explain to you how I considered them.

17 Q Well, you know, I think we've heard  
18 the basic message that it doesn't make any difference,  
19 but I'd like you to try to answer the question.

20 Is it your testimony that the inter-  
21 connections, or the difference in an interconnection between  
22 an OCC and AT&T doesn't make any difference?

23 A It may have made you more profitable  
24 than AT&T. There may be that difference, but it's not  
25 clear to me that it's not a barrier to entry in those

markets. You're in the market.

Q Isn't there a difference to the quality of service that the OCCs are able to provide?

A It may be perceived in some customer's mind as a lower quality service, Mr. Marmon, but, you know, that is exactly the point of competition. Customers could have available to them services of differential qualities, of differential rates, alternative options so that they can make these choices. If your quality was such a hindrance in the market as your question is suggesting, you wouldn't have grown to be a three billion dollar company.

Q I'm not suggesting anything. I'm asking you whether the difference in interconnection affects the quality of the service. And what's your answer to that?

A My answer is that by some definition of quality that may be true. In terms of affecting the quality of competition, I think it's not true.

Q Do these differences in the interconnection of the OCCs and AT&T cost the OCCs money?

A I don't know. Do you mean, is there an opportunity lost? I mean, currently, you get it at a discount.

Q Dr. Alessio, do you know what answer supervision and the automatic number identification is?

A Oh, I used to. That identifies the calling number in the central office.

Q And are you aware that the OCCs don't have automatic number identification?

A I am aware generally that the OCCs do not access the network in the same way that AT&T accesses the network.

Q Are you aware the OCCs have or do not have automatic number identification?

MR. MORRISSEY: At this point, Judge Shannon, I would like to object. Again, this issue is in detail in Mr. Schell's testimony and would probably expedite the hearing if those questions were directed to the subject matter expert.

COMMISSIONER SHANNON: Mr. Marmon.

MR. MARMON: I think that I'm still trying to ascertain what Dr. Alessio considered in his judgment with respect to the quality of the service that the competitors are able to offer, and I think it's relevant whether he considered or knows what the difference between the interconnection provided the OCC and the interconnection provided AT&T.

COMMISSIONER SHANNON: Well, did you consider that, Dr. Alessio?

THE WITNESS: Yes, sir, I did, Judge, and that's what I've been trying to explain to him.

COMMISSIONER SHANNON: You've been saying that, I felt, for the past ten minutes. And I'm not being facetious. I understand what he's saying, and he's not speaking from a technical standpoint; he's speaking from an economic standpoint, and I'm not sure that you were not getting into the technical aspect a little bit.

MR. MARMON: I'd like to ask him about the economic implications.

COMMISSIONER SHANNON: Try and rephrase it if you can. I want you to have your day in Court, I really do, absolutely. But any time-- you know, it's been our experience here-- and we've sat together on the Commission for about 13 years, and we've heard a lot of experts, and it's been our experience you don't get very far cross examining experts. You don't shake him; you

don't change his mind. The best way to, I guess, counter an expert is put your own experts on.

Go ahead, whatever you've got.

So this is not unusual to us.

BY MR. MARMON:

Q Well, are you aware, Dr. Alessio, that the OCCs have to spend a lot of money that AT&T doesn't because they don't get automatic number identification?

A I am aware that the OCCs claim that. I mean, I don't know factually that, indeed, it does cost them more money. I am also aware that they get access at a discount because of that. How that balances, I don't know. What I do know is that equality of access is not a prerequisite for there to be intensive competitive activity in the market.

COMMISSIONER SHANNON: Well, let me ask this question. You raised this in my mind and, I think, the Commission's. If you had your choice as a customer of paying a premium for service by equal access or if I could dial a few more digits and save myself 35 percent on the rate, don't you think that's an

economic choice?

THE WITNESS: I do; I think it's a valid economic choice, and that's my point. My point is that that's part of what happens in the competitive-- in a competitive market. What's being posited to me is someone that says all services have to be identical, and the customer can have no choice to pick a lower cost option before there can be some kind of quality of competition. Let me point out here my point of understanding.

COMMISSIONER SHANNON: Maybe I'm willing to take a less-- an inferior service in order to save on my telephone bill.

THE WITNESS: That's exactly right. But what that means, though, is that the service that is of the inferior quality competes very successfully with the service that's of superior quality. That's what that says.

COMMISSIONER SHANNON: I guess my point is if AT&T-- well, AT&T wouldn't be involved, but any of these other common carriers that were heard this morning, if they had

absolute equal access throughout the Commonwealth of Virginia, I think you'd still find that they have some customers that would like to have the inferior service because of the cost factor.

THE WITNESS: That's possible, Judge. I don't know the answer except to know that as a general condition there will always be some customers who will like the lower quality, significantly more discounted service. That's true with telephones--

COMMISSIONER BRADSHAW: All motorists have equal access to the highways, but some prefer to go around in Fords rather than Cadillacs because it costs less.

THE WITNESS: That's correct. And some prefer to take the byways rather than the freeways. Some prefer the two-lane country roads to super highways. That's the nature of substitution and competition in the market.

BY MR. MARMON:

Q           However, I would suggest that nobody wants to go down a dead end or reach a stop sign, and that's what happens when a OCC tries to sell telephone



service to a rotary dial customer, is that not right,  
Dr. Alessio?

A I don't believe so, Mr. Marmon.  
You certainly are growing very rapidly, and it's also my  
understanding, and I admit I'm not the technical expert,  
but there are interconnecting facilities available to you  
that you could choose that would allow a rotary dial  
customer to access to market.

In addition, that the cost of acquiring  
equipment for the customer is not all that great to convert  
from a rotary dial to a Touch-Tone or to get a signalling  
pad to put on the telephone. Again, there are these  
alternatives available to the customer if they choose it.  
That's the point. The point is freedom of choice.

Q Is it easier for AT&T or an OCC to  
sell telephone service to a rotary dial customer?

A I presume it's easier for AT&T, although  
I can't really say. I don't know the OCCs very well, but  
I know AT&T fairly well. My opinion is nothing is easy  
for them.

Q I'd like to ask you a little bit about  
your comments about market dominance, contestability, and  
rivalrous activities.

COMMISSIONER SHANNON: Before you ask

that question, how much more do you have  
for this witness, Mr. Marmon?

MR. MARMON: I would say another  
half an hour.

COMMISSIONER SHANNON: All right,  
let's take a short recess.

(Recess.)

THE BAILIFF: The Commission resumes  
its session. Be seated, please.

COMMISSIONER SHANNON: Mr. Marmon,  
please continue.

MR. MARMON: Yes, sir.

Q Dr. Alessio, would you agree that a  
definition, not the only definition, of market power is  
the ability to raise and maintain price above competitive  
level without driving away so many customers so as to  
make increase unprofitable?

A No, I wouldn't agree with that. That's  
true on any firm's demand curve wherein they're in the  
innerelastic segment of that curve, regardless of the power  
that the firm has. There is a condition. For there to be  
market power, you have to be able to control price on entry.

Q Now, do you agree that some government  
regulation is justified in the case of a market if

there is a firm with market power?

COMMISSIONER BRADSHAW: Are you talking about regulation or antitrust, or what?

MR. MARMON: I'm talking about regulation.

A I do not believe that market power per se is a reason for regulation.

Q Okay.

A Every firm in the market has some degree of market power.

Q I'm not talking about a firm that is by your definition that is able to control price.

COMMISSIONER SHANNON: Would IBM have more active market power than, say, Apple?

THE WITNESS: In my opinion, IBM has more power in some segments of the market than Apple. However, it does not make IBM a monopolist, nor does it mean that somebody should regulate the computer industry.

BY MR. MARMON:

Q So your opinion with respect to AT&T's petition, then, is unrelated to whether it has market power or not?

A My opinion is that it does not have.

Q No, I say your opinion with respect to whether the petition to deregulate should be granted or not, it should not depend on whether or not AT&T has market power in Virginia?

A That's right. What it depends on, in my opinion, is whether it's a natural monopoly, and a natural monopoly that infuses the public interest, which is the traditional economic reason for public utility regulation to occur in the first instance.

Q The only justification is for public utility regulation is if an industry is a natural monopoly?

A For traditional public utility regulation, generally speaking, there are two reasons. One is naturally monopolistic tendencies in production technology such that it's important from the view of society to concentrate the production in a single firm rather than duplicate through a multiplicity of firms, but yet set up some sort of rules so being that the firm does not abuse its unique singular position in the market. And second is if there were some overriding and overwhelming social policy objective, it would not be produced by the market in and of itself such that regulation

is the only cost way of solving the policy problem.

Those are the two general conditions under which regulation can still occur of a public utility variety, at least in economic theory.

Q Let me just be sure I understand your testimony. So that market power in and of itself is not a reason for government regulation?

A That's correct.

Q What about dominance? Is that a reason for government regulation?

A No. Once again, dominance in a market is not by itself a reason for there to be government regulation. If that were true, surely, historically, over time, there would have been more industries and more firms that would have been regulated than public utilities.

COMMISSIONER SHANNON: I know in your direct testimony you defined dominance, but just, again, for my edification, would you tell me what you mean by "market dominance?"

THE WITNESS: Market dominance is one that is characterized by a firm that meets several characteristics. It's large relative to all other firms in the market to such a degree that it has absolute control

over the price. It can price as if it's a monopolist, and to be able to maintain that dominance in the market, it has control not only of its price, but it has control over entry of substitutes, it has control over the development of substitutes, and it can significantly control the development of technological trends that might erode its position.

In addition to that, there is one more classic characteristic in economics of a dominant firm, and that is the dominant firm acts passively in the market and un-intensively rivalrous in the market. A dominant firm generally tends to sit back and just let all the small firms do what they want to do without retaliating or without responding.

COMMISSIONER SHANNON: But the dominant firm sets the price?

THE WITNESS: The dominant firm sets and controls the price. But to do that, it's got to be able to control entry, the development of substitutes, and the development

of technology, because any of those are inroads to competitive threats that erode away its dominance in the market. Big firms like Xerox and National Cash Register who once were very large firms in their market whose powers eroded because of the development of substitute and new technology. The railroads were affected that way by trucking, and on and on. You can go through the litany of a multitude of industries in the United States, and you see that happening.

And, therefore, it's also important to note that dominance is a fleeting characteristic. It's limited in time and limited in scope.

BY MR. MARMON:

Q Dr. Alessio, you say that one of the elements of contestability is whether an increase can accrue capital that is highly mobile or fungible, is that correct?

A Yes, that is one of the characteristics.

Q What is capital that is highly fungible?

A Capital that is fungible is capital that has reclaimable value, capital that is not sunk in the sense of there is no way to regain some of the money that has been spent, reuse it some other way, sell it to

somebody else.

Q Is a microwave tower an example of fungible capital?

A To a large extent, a microwave tower is a piece of fungible capital. It's a piece of fungible capital in the sense that it can be used to provide a number of alternative kinds of telecommunications services so that if a firm is not successful in one line of telecommunications services, it can use that same capital to provide another. It's also fungible in the sense that in the worst case, if that particular firm were to go into bankruptcy, it can be sold to another firm who may wish to enter that business. I'm not suggesting that it's absolutely fungible, Mr. Marmon, but I'm trying to suggest that it's not absolutely sunk, that it's not irretrievable capital. I don't mean to imply that microwave towers have wheels on them to use them all around. That's not what I'm suggesting, but I am suggesting that it is not sunk in a classic economic case of sunk.

Q What would be a classic case of sunk?

A A nuclear power plant would be a good classic case of sunk.

(Laughter.)

COMMISSIONER BRADSHAW: You and I



were on the same brain wave. When you were saying it, I was thinking it. (Laughter) I was going to suggest it if you didn't.

BY MR. MARMON:

Q Do you know how long it takes to build a microwave line after a decision has been made to do so?

A No, I don't. Depends on how quickly you work; I don't know.

Q One of the other elements of contestability, if I understand your testimony, is that the market can be vulnerable to hit and run injury, is that right?

A Not exactly. That's reasonably close, though. Actually, the single most important characteristic of a contestable market is open entry, the ability for someone to come in and profit from any potential abuses that existing companies might have, but it doesn't necessarily always have to be the hit and run variety. For example, if there is one grocery store in a small town, you could maybe view that as if it were a special monopoly because there is no other store nearby the way, but, nevertheless, if the grocery sales are a contestable market because of that single store were to likely to consistently price its bread very high and its meat very high, someone

else would enter.

That threat of potential entry makes the market contestable tends to make the grocer act as if he's a competitor even though there may not be another store nearby. That's the condition of open entry; doesn't necessarily imply hit and run.

Q Do you agree or disagree with the statement I'm going to read? "The crucial feature of a contestable market is its vulnerability to hit and run injury"

A Depends on what you mean by hit and run.

Q Do you agree or disagree?

A I said I agree, but I wanted you to understand that a hit and run doesn't necessarily mean that this has to be a Bangladesh bazaar where you just unfold a tent and then can fold up a tent and leave. I'm having trouble with the phrase "hit and run."

I would characterize hit and run competition as being the kind of competition, for example, in telecommunications that can take place by a firm entering first through resale and getting a feel for the market, getting a clear definition of the market before it deploys any technology. That's a very contestable

market. That is hit and run competition.

Q That's hit, not necessarily run?

A You can leave if the resale doesn't work out for if you haven't committed your facilities; you've committed somebody else's.

Q What about a company that has facilities? Are they able to hit and run in telecommunications?

A Well, they may. They may exit some markets if that's what you mean, Mr. Marmon.

Q Does MCI exhibit characteristics of a hit and run entrant?

A I don't know all of MCI's circumstances. I don't know that they've run very much, and that's why I think the nature of this competition is intensively rivalrous. MCI seems to be a company that hits and then to stay, and that's the whole point of this. It is contestable; it is competitive; it is rivalrous.

Q Do you have any examples in the telecommunications industry where companies have hit and run?

A I think there have been resellers who have exited the market, haven't there been? That would be an example of hit and run competition.

Q Do you know any names?

2 A Not offhand. I don't think they'd  
3 be difficult to find.

4 Q Have you ever heard of the company  
5 Da-Tran (phonetic)?

6 A Oh, I have, yes. They were founded  
7 by two people who come from the Dallas-Fort Worth area.

8 Q Could you tell us about their experience  
9 in the communications project?

10 A They weren't very successful. They  
11 went out of business.

12 Q Is that a hit and run entry?

13 A They certainly hit and run, yeah.  
14 And apparently it cost them some money. But once, again,  
15 that's the point. The point is that in a competitive  
16 environment some companies win and some companies lose,  
17 and not everybody is a winner.

18 And in addition to that, some of that  
19 capital was probably reclaimed. Some of it was probably--  
20 I believe Da-Tran was bought out by another company, and  
21 you're probably going to correct me about this-- it maybe  
22 was University Computer Company, what they call UCC, and  
23 maybe now somebody else. I may not have that right, but  
24 I do recall that they were purchased by somebody.

25 But you have to remember that not all

1 this has to take place instantaneously in time. My  
2 favorite example of that is Braniff Airlines. I see them  
3 all the time when I go to the Dallas Airport. They clearly  
4 went out of business; they clearly had a lot of capital;  
5 they clearly had a lot of fixed costs in their airplanes.  
6 When I look at those airplanes, that's pretty clear to me  
7 that that's fungible capital. You can move them around,  
8 and you can sell them to other carriers, and they did that,  
9 and now they're flying again.

10  
11 Q Isn't it true, Dr. Alessio, that a  
12 microwave tower is like an airplane in that respect?

13 A No, I've already said it's not on wheels,  
14 but I'm trying to make the point that the world is not--  
15 is not putty and then clay. I mean it's not all malleable  
16 at one instant in time and then becomes hard and can't be  
17 changed. The point is--

18 Q Where would you say between a nuclear  
19 plant and an airliner that a microwave tower would be?

20 A When there is no potential for reuse,  
21 when there is no potential for reasonable salvage, when  
22 there is no other company it can be sold to. In addition  
23 to that, companies enter the market--

24 Q Dr. Alessio-- excuse me-- you didn't  
25 answer my question. If a nuclear power plant is zero and

2 an aircraft, airliner, is 10 with respect to fungible  
3 capital, where is a microwave tower?

4 A Mr. Marmon, I can't put them on a zero  
5 to 10, where you could probably have some microwave towers  
6 that are a 10. If you've got a microwave tower between  
7 New York and Boston or a microwave tower between Chicago  
8 and Los Angeles, that might be a 10; but if you've got a  
9 microwave tower in Point Barrow, Alaska, that might be  
10 close to a one; I don't know. It's going to depend.

11 And that's exactly the point. The  
12 point is you can't claim it simply because you've deployed  
13 capital that it sunk and that it's rigid and that you need  
14 special protection in the market.

15 Q Weren't you making that assumption when  
16 you put your air-- or the Braniff airplanes?

17 A No, I'm saying that Braniff is an  
18 empirical example of high fixed costs that turn out not  
19 to be sunk.

20 Q It depends on the circumstances in  
21 every case?

22 A That's correct.

23 Q Maybe even a nuclear plant could be  
24 sold?

25 A That would be real hard for me to

believe, but maybe so.

Q Dr. Alessio, you talk about in your testimony residual pockets of market power in Virginia on Page 27. You indicate there may be such residual pockets of market power in Virginia.

A I don't say that there will be. I say that.

Q I understand. That is in your testimony, is it not?

A There is a section in my testimony about how to deal with-- to protect against residual pockets in monopoly power being abused in the market power. Page 27, at the bottom of the page, Mr. Marmon, is that the sentence you're looking for?

Q No, I'm looking at the sentence in the middle of the page.

A Middle of the page.

Q "The Commission should focus on oversight and monitoring responsibilities to assure itself that, if there are residual pockets of market power in Virginia, they are not being exploited by any carrier."

A Yes, I said that, but that's not what you're asking me. You said that I said there are residual pockets. I didn't say that there are.

Q I asked you if you indicated that there might be.

A I didn't even say that. I said if there are some, there are mechanisms--

Q Well, do you think there might be residual pockets?

A There might be, yes.

Q And where might they be?

A They might be in, I suppose, in a very extreme route in some unusual place in the State. I mean, that's possible, and I can't rule that out, and I'm not trying to be flip about it, but what I'm trying to indicate is that I think that's the tail; that's not the dog, and we don't want to have the wrong thing wagging.

Q Have you got "residual" up there in the front of that phrase?

A Yes.

Q Would they be areas where AT&T is the only provider of telephone service in the State?

A They may be.

Q Would they be-- would all areas where AT&T is the only provider, would all of those areas be residual pockets?

A Of course not. But significant



pieces of those may be contestable even if AT&T is the only carrier there. We just went through the grocery store example. It's the potential for open entry. It's the potential for someone coming in that frequently causes a firm who is in the market to act like a competitor.

Q All right.

A You see it in dry cleaners, for example. Dry cleaners act that way even though they may be the only dry cleaner in the neighborhood. They still send out coupons and still provide discounts and still act as if they're in a competitive market.

Q In Mr. Wilcox' prefiled testimony, Dr. Alessio, he states that AT&T has been forced to serve some areas of the country at below cost. Do you remember that?

A I don't recall.

Q Do you accept that?

A I will accept that.

COMMISSIONER BRADSHAW: Who said that?

MR. MARMON: It's in Mr. Wilcox' testimony.

COMMISSIONER BRADSHAW: Does he mean by regulatory action, like, Louisiana would make him have a five-cent telephone?

2 MR. MARMON: I think he's referring  
3 to areas where the rates, universal rates  
4 do not recover costs in a particular area  
5 because of a special high cost of providing  
6 the service in a particular area, up on a  
7 mountain top, something like that.

8 Q Now, if that's true, which we're  
9 assuming that it is for the moment, that requires AT&T  
10 to make up the difference someplace else, does it not?

11 A Not necessarily, or they can do what  
12 they have more traditionally done, not hit their objective  
13 rate of return.

14 Q If AT&T is going to make any rate of  
15 return at all, it has to make up the money that it loses  
16 on that-- those portions of routes that it serves at below  
17 cost, does it not?

18 A This means that it has to have revenues  
19 coming from someplace that's high enough above cost to  
20 offset these losses. It doesn't necessarily mean they'd  
21 have to raise any pre-existing prices; it just means  
22 they'd have to have sufficient contribution somewhere  
23 else to offset this.

24 Q Now, in your testimony this morning,  
25 Dr. Alessio, you have suggested that the proper course

for this Commission is to totally deregulate the rates of AT&T now with a continuation of oversight to protect against the abuse of residual pockets of market power.

Now, is it--

A Is that a question, Mr. Marmon?

Q No, it's not. The question is coming.

A I just wanted to remind you that you and I have a disagreement about the use of the word "deregulate" in your statement.

Q Well, I'm talking about the deregulation of rates.

A Yes, I understand; we've been through this discussion. And I don't mean to be defensive; I just don't want you to testify for me.

Q Well, how would you characterize your recommendation?

A I do not regard this as deregulation. I've told you that. I regard this as streamlined regulation, and I do understand that under the rules that have been proposed by the Commission that the rates do not have to be passed on per se, but there is a complaint avenue that's available, and there is the potential of the reimposition of regulatory review. That, to me, is not deregulated. Deregulated, to me, is turning them loose and saying,

"We no longer have authority over you." I do not understand the rules of the Commission to have said that they have abdicated their authority over any carrier that they certify.

COMMISSIONER SHANNON: That's because we have them by the leash of possible reregulation.

THE WITNESS: Yes, sir, that's exactly right.

COMMISSIONER SHANNON: And what you're saying is that they are not truly competitive as long as that leash is being held by the Commission?

THE WITNESS: They're not truly deregulated, yes, as long as you have that leash.

COMMISSIONER SHANNON: Well, we can say they're truly competitive.

THE WITNESS: Oh, I think they will be, and I think they are.

BY MR. MARMON:

Q Dr. Alessio, is it true that in testimony in other states you have stated with respect to this same question, it's a transition period for total deregulation, that there should be something less than

you're suggesting today with respect to rates, the Commission's power over rates?

A Inside the LATA, yes.

Q Only in intraLATA competition?

A That's my recollection. I have also proposed at times that as intermediate steps that the Commission undertake flexible pricing tariffs where you set a maximum and a minimum.

Q Did you make that suggestion in your testimony in the Maryland proceeding last year?

A Yes, I did. And I don't mean to cause any confusion, Mr. Marmon. I don't think I suggested a timing on the flexible tariffs. I suggested a time to phase in mostly for intraLATA competition.

Q Well, why don't we just-- can I just hand you this, a copy of your testimony, and if you could just read the part that is marked in red. It goes on to the next page.

COMMISSIONER BRADSHAW: You-all did a lot of work since 6 o'clock last night to go to Maryland.

Q (Continuing) I'd like you to read it outloud.

A The whole paragraph?

Q The whole paragraph.

A "Finally"--

COMMISSIONER SHANNON: Now, what are you reading from? Is this the testimony you gave in Maryland--

THE WITNESS: Yes, this is--

COMMISSIONER SHANNON: --in some proceeding, or was it a related proceeding, or what?

THE WITNESS: No, it was not. This was testimony by me, on behalf of AT&T Communications of Maryland, in what was identified as Maryland Case No. 7719. I believe it was a competitive certification case.

COMMISSIONER BRADSHAW: What was the case about?

THE WITNESS: Competitive certification.

COMMISSIONER BRADSHAW: Oh.

THE WITNESS: Competitive certification case.

COMMISSIONER BRADSHAW: And they had that last year?

THE WITNESS: September-- my testimony is dated September 14th, 1983.

COMMISSIONER SHANNON: I think that's the case involving where they filed rates to have, as you say, maximum-minimum levels, and I think we rejected those in Virginia. I may be speaking out of turn because we said the tariff has to be specific in this state until you are deregulated or released from regulation.

But go ahead.

MR. MARMON: Let me just clarify this. I think this was-- I stand corrected-- subject to correction by Mr. Morrissey. I think this was in testimony in MCI's certification proceeding in Maryland. The issue was streamlined regulation for OCCs and a continuation of conventional regulation for AT&T.

MR. MORRISSEY: I will set the record straight. What it was was the outgrowth of a show-cause order by the Maryland Commission as to why MCI was providing intrastate service in Maryland without asking for an application first. The issue then was joined to look at what regulatory constraints should be provided to all

interexchange carriers, and this was the context in which Dr. Alessio's testimony was presented, recommendation for all interexchange carriers.

COMMISSIONER SHANNON: I understand.

MR. MARMON: I reserve the right to clear the record on this. I'm told that that is not the correct statement.

COMMISSIONER SHANNON: You know, Mr. Marmon and Mr. Morrissey, this is the problem when you start going to other commissions. We don't pay any attention to what they do in Maryland and North Carolina; we decide in Virginia ourselves. This is a problem when you go to something like that; it confuses the record a little bit, and I don't think it makes any difference unless you've got an inconsistent statement.

MR. MARMON: That's what we have. It's an issue that I'd like to get into the record here is that a prior statement by Dr. Alessio on this very subject, and that is the transition regulatory oversight that a commission should apply to AT&T.



COMMISSIONER SHANNON: All right, let him read it, and then you can make your point, and he can qualify it, and you make your point.

THE WITNESS: Judge, I'd be happy to read this because I think it's right on the point with respect to this case.

A (Continuing) "Finally"-- oh, by the way, this is on Page 16-- that's 16 and 17 of that testimony. "Finally, a different form of regulatory oversight should be imposed on carriers by the Commission during the transition to increased competition in intrastate toll markets. Price bounds, i.e., price regulation within a range of floor and ceiling rates, should be substituted for rate of return and rate base regulation for toll services. The price ceiling or upper...bound could be based on market conditions, while the price floor or lower ...bound would be at incremental cost. Price flexibility would be permitted within the upper and lower bounds. With price bounds, carriers would be allowed the necessary flexibility in the market to respond to competitive pressures and, at the same time, the Commission would retain sufficient oversight to prevent any abusive practices. The upper and lower...bounds could then be indexed to

balance changes in costs and productivity over time until the Commission decides that market conditions are such that competitive...forces alone are sufficient to regulate the market."

You have a very different set of circumstances than what-- I proposed the price bound as a substitute for the traditional form of specific price regulation; and if a Commission found that competition is not sufficient to provide the kind of streamlined regulation that is proposed by this Commission, there is a significant difference.

Q Dr. Alessio, you have conceded, I believe, that there is a possibility that deregulation will not work, and that it would-- deregulation of rates would have to be reimposed. In fact, the threat of that reimposition is one of the things that you think should act as regulation of rates.

Now, let me ask you, what would be more desirable from a public policy standpoint, a phased deregulation of regulatory control over rates through a period of steps, one after the other after it has been seen that this policy was not going to fail or a total deregulation of rates of the control over rates, and then a reimposition of regulation?

A Mr. Marmon, you and I, I think, have a significant difference in definition.

Q Can you answer that question?

A Yes. I think this is a step. I think this is a phase-in. I do not think that this-- I mean, I do not believe--

Q You won't answer the question?

A --that this total deregulation. This is a phase-in. This is a very reasonable step.

COMMISSIONER SHANNON: Well, Mr. Marmon, he's made it clear, at least as far as I'm concerned, he doesn't consider what's proposed here before the Commission to be total deregulation. Now, you may not agree with it, and maybe somebody else doesn't agree with it, but that's--

MR. MARMON: Whatever it is.

A (Continuing) What it is is a great idea.

Q Whatever it is, it's less than a more phased Commission withdrawal from direct control over the rates of AT&T, is it not?

A Oh, of course.

Q All right.

A I mean, by definition, they could take something that's something less streamlined. Also, by definition, they could pick something that's more streamlined.

MR. MARMON: Just one moment, please.

I have no further questions.

COMMISSIONER SHANNON: Thank you, Mr. Marmon.

It's now 4 o'clock, and the Commission has rearranged their schedule so we can resume this hearing at 10 o'clock Monday morning.

I just wondered, can everybody be back here Monday.

You can temporarily stand down, if you'd like, Dr. Alessio.

MS. DUPONT: Your Honor, I believe that our two witnesses will both be needed to testify elsewhere on Monday, and I apologize to the Commission, but we had expected that they would appear today.

COMMISSIONER BRADSHAW: Where are they testifying Monday?

MS. DUPONT: One will be-- actually, they will be enroute, one to Kentucky and

one to Nevada.

COMMISSIONER SHANNON: Well, we've got to finish this case up by the 1st of August, and so we've got Monday and Tuesday.

COMMISSIONER BRADSHAW: Is there any cross examination of their witnesses? Is it a possibility their testimony could be prefiled or stipulated?

MR. MORRISSEY: I would anticipate that we would have very little cross examination of the witnesses who have been identified to us, and I assume those will be the witnesses.

If I might also indicate, that if the Sprint attorney is going to, how much cross examination they would have for Dr. Alessio. If it would be relatively short, it would certainly be easier for Dr. Alessio to finish today if that could possibly be done in a short time, and then come back, if need be, but it would be--

COMMISSIONER SHANNON: How much cross examination, Ms. Dupont, do you have?

MS. DUPONT: I believe my cross examination would be quite brief.

COMMISSIONER SHANNON: Let's see.

I believe you're the last one, aren't you?

That's right.

COMMISSIONER BRADSHAW: What is  
"quite brief?" That varies from lawyer to  
lawyer. (Laughter).

MS. DUPONT: I would doubt more  
than 15 minutes, Commissioner Bradshaw.

COMMISSIONER SHANNON: All right.  
Well, let's go ahead, then, and finish with  
Dr. Alessio since he comes from Dallas, and  
it's pretty long just to come back for 15  
minutes.

The Commission deviates from its  
rules by going over, but we will be glad to  
do that in this case.

MR. MORRISSEY: Thank you very much,  
Judge Shannon.

THE WITNESS: Thank you, Judge.

CROSS EXAMINATION

BY MS. DUPONT:

Q Good afternoon, Dr. Alessio. As I  
said, I just have a few questions for you. You testified

2 at some length about the possibility of geographic  
3 deaveraging as I recall, and you seem to think it's  
4 quite important that in this case AT&T has committed  
5 itself to maintain statewide uniformity by service,  
6 is that correct?

7 A I don't know how important it is.  
8 I know they have committed to that.

9 Q I see. And you felt this was relevant  
10 to the question of whether rate increases or decreases  
11 would occur in perhaps in one market first and then spread  
12 to other markets?

13 A In one piece of geography as compared  
14 to another, is that what you mean?

15 Q Yes.

16 A Yes.

17 Q And I believe you stated on cross  
18 examination that you would doubt whether a carrier such  
19 as AT&T would deaverage geographically because it would  
20 not be customer friendly. Did you use that term?

21 A I did use-- along with some others,  
22 I did use that term, yes.

23 Q Do you agree that it's a valid concern  
24 of the regulatory agency to assure geographic rate  
25 deaveraging will not occur?

A I wouldn't say it that way. I think it is a valid concern of the regulatory agency to understand that geographic deaveraging to the extent it occurs, it occurs for a good reason.

Q And do you think that geographic deaveraging is a good idea, something that is pro-competitive?

A To the extent that it-- to the extent that it mirrors true economic costs, then I think yes.

Q So you would hope that eventually this Commission would allow geographic deaveraging, correct?

A I would hope that eventually this Commission would allow all the companies to respond to not to serve customer needs, but also to the cost of providing service, but yet I don't want you to conclude that rural areas are always higher cost areas. They're not necessarily always higher cost areas. For inter-exchange service there may be higher cost areas on the loop side for outside plant, but that's not necessarily the case.

Q Well, from an economy point of view, is it good public policy to allow rate deaveraging on a geographic basis?

A Well, I think in some instances, yes,



because I do think from a public policy view, it's a good idea eventually to get cost cause, a rate phenomenon, lined up unless there is some overriding source of policy that indicates that that shouldn't happen, but I think that's always a consideration.

Q Now, why do you suppose that AT&T has agreed not to deaverage its rates on a geographic basis at this time?

A Oh, I think that's an easy one to answer. I don't think there is a current market signal that tells them that that's the thing to do. I don't see why that makes economic sense in the market currently.

Q Because it's not customer friendly?

A Because it's not customer friendly. And the only cost variations that you're going to see are pretty much due to the assignment of nontraffic sensitive costs under the access charges.

I'm not convinced that there is a true economic underlying cost difference other than the allocation of nontraffic sensitive costs, and, presumably, hopefully, some policy will be worked out to have these published what that policy is. Hopefully, that will come.

Q Dr. Alessio, do you have any idea how long AT&T intends to remain customer friendly in the

Commonwealth of Virginia?

A Oh, I have no idea. I'll bet Mr. Wilcox can tell you that.

Q Well, certainly, Dr. Alessio, you're aware that this issue has come up in other states and has been raised by AT&T, correct?

A That's true.

Q And that should the Virginia State Corporation Commission determine to allow AT&T streamlined rate regulation, it would be the first such decision in the United States, is that correct?

A Yes, to my knowledge.

Q So if the Commission should decide this issue incorrectly, it could perhaps set off a stream of events that would be very disadvantageous to the ratepayers of the country?

A I suppose to the ratepayers. In practice, that seems hardly probable. The Commission has enough authority to reimpose things relatively quickly.

In addition to that, it truly is a good idea. The time has come.

Q Dr. Alessio, how did you envision that a commission would reimpose rate regulation on a carrier

that has dispensed with it?

A On a carrier that has dispensed with it?

Q A carrier that no longer keeps its books in a manner that allows it to be subject to rate regulation, no longer depreciates its facilities as a regulated company.

A Well, let me point out to you that one of the things that I recommend and have talked with Mr. Gillespie about is that an important role of the Commission and its Staff is this monitoring process, and in my testimony I talk about the ability to monitor data and make sure even though they may not be calling for the reporting of that data all of the time, it's very important that the Commission keep in place that does it appear to be the appropriate base for it if it wants to have that regulatory review.

I think those are things the companies are going to do anyway. Most of the companies are going to keep up data.

Q Do you think it would be a simple matter to reconstitute depreciation reserves and accounting procedures that would allow for rate regulation once it's been dispensed with?

A Well, I'm somewhat befuddled by the question. The concept of depreciation is not going to disappear because of a streamlined regulation. The concept of depreciation and the reserves and net book value, I mean, all of those are relatively standard accounting principles. I don't see where all of these disappear.

Q So you would recommend that AT&T be required to continue to keep its books in the manner of a regulated company and to continue to employ depreciation practices of a regulated company in order to allow the Commission to reimpose rate regulations if it turns out that this streamlined treatment is a mistake?

A No; heavens, no. The Company should be required to keep a solid set of economic books and a solid set of books that satisfy generally accepted accounting principles, and I would hope that in the interexchange market that the Commission begins to regulate on the company's true cost of providing service, if it ever has to reregulate, not on necessarily contrived conventions.

Q So your answer is no?

A My answer is no.

Q Dr. Alessio, you spoke earlier of the test of suitability of services.

A Uh-huh.

Q And I believe you stated that you didn't regard unequal access or inferior access as a barrier to entry, is that correct?

A That's correct.

Q Am I correct that the reason that you see for this is because of the premium access charge and the corresponding discount one might call it for inferior access?

A No. No, that's not my reason. That's an interesting counterbalance in weights that someone might put in the equation, but my reason is that this alleged unequal access has not stopped the OCCs from growing very rapidly in the interexchange market. It does not appear to have a force in the market. The companies have grown to become very large carriers in spite of what they allege to be, unequal access. That's the point that's important to me.

Q Then why do you suppose these companies have been able to grow at all?

A Because I think there is a demand in the market for different kinds of pricing options. I think

there is a demand in the market for discounted toll services. I think they're providing a service that customers want. And I think they should be able to continue to provide that service. I just also think that other companies should be able to compete with them.

Q Do you think that telephone subscribers would pay the same price for a service where they needed to dial 23 to 25 digits versus 10 or 11?

A Probably not. But they may be willing to pay a slightly lower price to dial those extra digits to get that service.

Q So you regard the concept of a premium access charge as a good one and one that's suitable to be maintained?

A It has nothing to do with the premium. It has to do with the price that's charged to the customer and the customer's perception of the quality that they receive in the context of the quality that they wanted supplied. It has nothing to do with premium access charges.

Q And presumably the prices charged to the customer reflects the prices the carriers pay for access, correct?

A If I understand the question, yes.

MS. DUPONT: Thank you. Those are

all the questions I have.

COMMISSIONER SHANNON: Thank you.

Do you have any redirect?

MR. MORRISSEY: No redirect, Judge Shannon.

COMMISSIONER SHANNON: Well, thank you, Dr. Alessio. You may stand down.

THE WITNESS: Thank you, Your Honor.

\* \* \* \* \*

WITNESS STOOD ASIDE.

COMMISSIONER SHANNON: Ms. Dupont, do you have any word on your witnesses for next week?

MR. MAGEE: Excuse me, Judge Shannon. We're trying to see where we stand.

COMMISSIONER SHANNON: All right.

MR. MAGEE: Bear with us for just one second, please.

COMMISSIONER SHANNON: Mr. Morrissey-- let's see-- you have two more witnesses, I believe.

MR. MORRISSEY: Yes, sir.

1  
2 COMMISSIONER SHANNON: We can hear  
3 from them Monday morning.

4 MR. MORRISSEY: Yes, they would  
5 be available.

6 COMMISSIONER SHANNON: Okay. And  
7 how many witnesses do you have, Mr. Moore,  
8 Mr. Marmon? You have one witness?

9 MR. MOORE: Yes.

10 COMMISSIONER SHANNON: And  
11 Mr. Gambardella doesn't have any.

12 Does the Staff?

13 MR. GILLESPIE: No.

14 COMMISSIONER SHANNON: So we're  
15 talking two, three-- I guess GTE has-- Sprint  
16 has one.

17 MR. MOORE: I think they have two.

18 COMMISSIONER SHANNON: Two.

19 MS. DUPONT: Pardon us. We were  
20 just confirming our witness' schedules, and  
21 I believe, Judge Shannon, earlier you mentioned  
22 the possibility of submitting prefiled  
23 testimony on behalf of our witnesses, and  
24 it almost appears that that's the only way  
25 we might be able to work things out in light



1  
2 of their commitments elsewhere.

3 Would that be acceptable?

4 COMMISSIONER SHANNON: Yes, if you  
5 will prefile it and serve it on everybody,  
6 including the Commission, let everybody have  
7 a chance to-- if somebody should say "We want  
8 to call them down here to cross examine them,"  
9 we'd have to do that.

10 So when would you get it filed?

11 MS. DUPONT: Would August 1st be  
12 sufficient?

13 COMMISSIONER SHANNON: Would that  
14 be agreeable to everybody?

15 All right, if you can have it filed  
16 on or before August the 1st, it would be  
17 subject to any objections that would be made  
18 of course.

19 All right. Well, we thank you,  
20 Ms. Dupont and Mr. Magee.

21 So we have your two witnesses from  
22 AT&T. We have one from-- so it's three  
23 witnesses we'll have Monday, so we ought to  
24 be able to finish with this part of the case  
25 Monday.

1  
2 We will stand in recess then  
3 until 10:00 a.m. Monday morning.  
4

5 NOTE: The hearing was adjourned  
6 at 4:15 p.m., July 27, 1984, to be reconvened  
7 at 10:00 a.m., July 30, 1984.  
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COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

PETITION OF

CASE NO. PUC840023

AT&T COMMUNICATIONS  
OF VIRGINIA

For authority to set rates  
and charges pursuant to  
Section 56-481.1 of the  
Code of Virginia

A complete transcript of the testimony and other  
incidents of the above-captioned matter when heard on  
July 30, 1984, before the Honorable Commissioners of the  
State Corporation Commission, Richmond, Virginia.

Reported and transcribed  
by: Susan E. Moser

ASSOCIATED REPORTERS  
OFFICIAL COURT REPORTERS  
STATE CORPORATION COMMISSION  
POST OFFICE BOX 1197  
RICHMOND, VIRGINIA 23209

1  
2  
3 NOTE: The matter is called to be  
4 heard at 10:00 o'clock a.m., July 30, 1984,  
5 having been continued from July 27, 1984, and  
6 continues as follows, viz:

7  
8 THE BAILIFF: The Commission resumes  
9 its session.

10 COMMISSIONER SHANNON: All right, I  
11 believe now we're ready to hear the next  
12 witness for AT&T Communications of Virginia.  
13 Mr. Morrissey.

14 MR. MORRISSEY: Thank you, Judge  
15 Shannon. Ms. McCarey will put on Mr. Schell.

16 COMMISSIONER SHANNON: All right.  
17 Mr. Leap, let me have the appearance  
18 slips.

19  
20 JOHN D. SCHELL, a witness called by  
21 and on behalf of the Petitioner, having been first duly  
22 sworn, testifies as follows, viz:

23 DIRECT EXAMINATION

24 BY MS. MCCAREY:

25 Q Please state your name and business

1 Schell - Direct

117

2 address for the record.

3 A My name is John D. Schell, S-c-h-e-l-l.  
4 My business address is 3033 Chain Bridge Road, Room A258,  
5 Oakton, Virginia, 22185.

6 Q Mr. Schell, you have in front of you  
7 a document entitled the Testimony of John D. Schell,  
8 consisting of 21 pages and an Attachment A with nine  
9 pages; is that your testimony in this case?

10 A It is.

11 Q And that was prefiled last Thursday?

12 A Yes.

13 COMMISSIONER SHANNON: Let's identify  
14 Mr. Schell's 21 pages of narrative testimony  
15 and his Attachment A, consisting of nine pages,  
16 as Exhibit JDS, I believe the next number is  
17 2.

5 NPM  
JPS-2

AT&T COMMUNICATIONS  
OF VIRGINIA, INC.

TESTIMONY OF  
JOHN D. SCHELL, JR.

VIRGINIA STATE CORPORATION COMMISSION

CASE NO. PUC 840023

JULY 27, 1984

Q. PLEASE STATE YOUR NAME, PRESENT POSITION AND BUSINESS ADDRESS.

A. My name is John D. Schell, Jr. I am presently District Engineer in the Eastern Region of AT&T Communications, 3033 Chain Bridge Rd., Room A258, Oakton, Virginia 22185.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I graduated from St. Louis University with a Bachelor of Science degree in Electrical Engineering in 1965.

Q. WHAT IS YOUR WORK EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY?

A. I joined AT&T Long Lines in 1965 as a Senior Engineer in the Engineering Department in Kansas City, Missouri. In that assignment I was responsible for power plant engineering in Long Lines offices in the mountain and Pacific coast states. Since then, I have held various line and staff positions in the engineering and operations departments of Long Lines. From February, 1979 until April, 1984 I was District Engineer - Transmission for the Eastern Region of AT&T Communications. My district provided technical expertise and guidance for transmission design and maintenance engineering for radio, cable and fiber optic transmission systems, including associated multiplex equipment; for switching systems; and for Special Services. The Eastern Region includes Virginia, Maryland, West Virginia, the District of Columbia, New Jersey, Delaware and Pennsylvania.

Since July 1983 I have been responsible for presenting testimony on the subject of interconnection arrangements for interexchange carriers and have presented extensive testimony on this subject in several cases in all jurisdictions of the Eastern Region with the exception of the District of Columbia and Delaware. In April, 1984, I assumed my present position as District Engineer - Staff, Regulatory and Financial Analysis. My District provides staff and technical regulatory support for the Eastern Region Engineering Organization.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe and compare the carrier interconnection arrangements available to other common carriers (OCCs) and AT&T Communications of Virginia.

Q. WHAT INTERCONNECTION ARRANGEMENTS ARE PRESENTLY AVAILABLE TO OCCS IN VIRGINIA?

A. There are now three types of arrangements through which the OCCs can interconnect with C&P's local exchange network in order to provide switched message services. These arrangements are offered under C&P's Access Service Tariff as Feature Group A, Feature Group B Direct, and Feature Group B Tandem.

Q. IN TESTIMONY BEFORE THE MARYLAND PUBLIC SERVICE COMMISSION, AN MCI WITNESS TESTIFIED THAT "THE QUALITY OF THE CONNECTIONS PROVIDED BY THE LOCAL TELEPHONE COMPANIES...IS BEYOND MCI'S CONTROL." IS THIS TRUE?



A. No. As can be inferred from the availability of three different forms of interconnection, MCI and the other common carriers can purchase higher-quality interconnections than the Feature Group A arrangement they generally use.

Q. WHAT FORMS OF INTERCONNECTION DO THE OCCS NOW USE IN VIRGINIA?

A. It is my understanding that the OCCs generally use the Feature Group A interconnection arrangement. At least one OCC, Satellite Business Systems (SBS), uses the Feature Group B Tandem arrangement.

Q. PLEASE DESCRIBE THE TECHNICAL ASPECTS OF FEATURE GROUP A INTERCONNECTION.

A. Feature Group A, originally offered as ENFIA A, can best be understood by reference to a diagram and by examining how a typical call is placed and completed. Feature Group A, as shown on Attachment A, page 1, provides the OCCs with interconnection to C&P's local network through a line-side connection<sup>1/</sup> at a local serving central office. An OCC customer served by office A who wishes to make an interexchange call dials the 7-digit telephone number of the OCC, which in this example is served by office B. The call is routed over C&P's switching and transmission

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<sup>1/</sup> A line-side termination is characterized by signaling interactions with the switching system which are typical of those used with end-user customers rather than those used with other switching systems in the network.

facilities through offices A and B and is completed to the OCC terminal. The OCC terminal recognizes the incoming call and "answers" the call by presenting an off-hook signal to the local serving office (B). At this point the call has been completed by the originating C&P exchange.

The OCC then presents a second dial tone to the calling party, which signifies that the OCC's terminal is prepared to receive the additional information required to process the call. This information typically takes the form of a 5- to 7-digit personal identification number ("PIN") and the 7- or 10-digit telephone number of the called party. All digits dialed after the OCC provides the second dial tone must use some form of tone-type signaling, because the local portion of the network cannot transmit rotary dial pulses after the call set-up has been completed. Although any tone-type signaling that uses frequencies within the voice-band can be employed, the OCCs presently use the TOUCH-TONE signal format. Thus, to make an intercity call over an OCC network, an OCC patron uses a TOUCH-TONE telephone (or equivalent) or a rotary-dial telephone equipped with an inexpensive auxiliary tone generator (Touch-Tone pad), which is generally available in Virginia.

After the OCC terminal verifies the validity of the calling patron's PIN, the call is routed over the OCC's intercity network to an OCC terminal connected to the local network that serves the area of the called party. With a Feature Group A terminating arrangement, this connection is again a line termination at the local serving office (C). To complete its patron's call, the terminating OCC terminal presents an off-hook signal to the serving office (C). After receiving dial tone from the serving office (C), the OCC terminal "dials" the 7-digit local telephone number of the called line and the call is routed over the local network to the serving office (D) of the called party.

When the called party answers, a signal called "answer supervision" is transmitted back to the serving office (C) of the OCC terminal. The answer supervision signal goes only to the serving office, since this is the point at which the local exchange network performs its billing functions. Because the OCC terminal is "downstream" of the serving office (see Attachment A, p. 1), it does not receive the answer supervision signal with a Feature Group A interconnection.

When the customers hang up, the offices serving the originating and terminating OCC terminals (B, C) and the calling and called parties (A, D) transmit disconnect

supervision signals and the connections are released. A disconnect signal is then transmitted by offices B and C to the OCC's terminals.

Q. YOU PREVIOUSLY STATED THAT TWO OTHER INTERCONNECTION ARRANGEMENTS -- FEATURE GROUP B DIRECT AND FEATURE GROUP B TANDEM -- ARE AVAILABLE TO THE OCCS IN VIRGINIA. HOW DO THESE INTERCONNECTIONS OPERATE AND HOW LONG HAVE THEY BEEN AVAILABLE?

A. The Feature Group B arrangements (originally offered as ENFIA B and C in February 1982) are shown on Attachment A, page 2. Feature Group B provides the OCCs with trunk-side<sup>2/</sup>interconnection. Feature Group B Direct provides a direct connection from the OCC's terminal location to a trunk termination at an end office the OCC chooses to serve, thereby providing an interconnection with all station lines which terminate directly at the serving office. Feature Group B Direct access can be provided at serving offices with No. 1 ESS or No. 1A ESS switching equipment<sup>3/</sup> or other appropriately equipped stored program control switching systems. Approximately 69 percent of all C&P of Virginia customer lines are currently served by such offices.

---

<sup>2/</sup>

Trunks are circuits between switching machines and utilize intermachine signaling formats, as opposed to the signaling interactions used on line terminations.

<sup>3/</sup>

No.1 ESS and No. 1A ESS are two of the electronic (stored program control) switching systems produced by Western Electric and widely deployed within local exchange networks to perform end office and tandem functions.

With Feature Group B Direct, the OCC can order an option at no charge, which permits OCC patrons to make calls using rotary-dial telephones. A second option, available at no charge and known as Automatic Number Identification (ANI), eliminates the need for a PIN and reduces by seven the number of digits the OCC patron must dial. Thus, Feature Group B Direct interconnects with the local network in an arrangement very similar to that which is afforded AT&T Communications under Feature Group C.

The Feature Group B Tandem arrangement provides access to a tandem switch which, in turn, provides access to all serving offices within the LATA.<sup>4/</sup> Thus an OCC need only obtain access at the tandem offices to be connected to all customer lines within the LATA.

When an OCC elects to use Feature Group B, its subscribers complete their intercity calls in the following manner. The OCC's customer dials a 7-digit uniform nationwide access code of the form, "950-[0/1]XXX" (950 is an office code dedicated for OCC access; the "XXX" portion of the

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<sup>4/</sup>

Most LATAs have been divided into sectors, each of which has a tandem for access. Therefore, an OCC would require a connection to each tandem in order to reach all customer lines in the LATA.

"[0/1]XXX" identifies the specific carrier). Thus, an OCC patron can reach his OCC's terminal by dialing the same access code in any city where the OCC is interconnected through a Feature Group B arrangement.

Upon completion of the 950-[0/1]XXX access code, the call is routed from the customer's end office to the OCC terminal location, either directly if Direct is used, or via a tandem switch if Tandem is employed. As with Feature Group A, the OCC, upon recognizing an incoming call, presents a second dial tone to the calling party, indicating to that party that the PIN (not required for Feature Group B Direct) and called party's number can be transmitted.

After the customer finishes dialing, the call is routed over the OCC's intercity network to an OCC terminal connected to the local network that serves the called party. To complete its patron's call with a Feature Group B terminating arrangement, the OCC seizes the trunk connected to the end office or tandem office and transmits the called party's number. Multi-frequency (MF) trunk address signaling and trunk signaling protocols are used. When the called party answers, an answer supervision signal passes from the called party's serving office through the local network to the OCC. When the conversation is completed, the Feature Group B access arrangement transmits disconnect supervision to the OCC.

Because Feature Group B Direct uses a direct connection from the serving office to the OCC's terminal, it allows the OCC to provide transmission quality equal to that of AT&T Communications' service. Feature Group B Tandem provides transmission quality close to that of AT&T Communications and will provide the same quality through C&P of Virginia's equal access tandems and associated equal access transmission plan. C&P of Virginia will have 13 equal access tandems -- eleven available in 1985, and two more available in 1986.

Q. IN ITS MEMORANDUM FILED ON JULY 18, MCI STATES: "THE INTERCONNECTION PROVIDED TO AT&T PROVIDES IT WITH AUTOMATIC NUMBER IDENTIFICATION AND ANSWER SUPERVISION NEITHER OF WHICH IS AVAILABLE TO THE OCCS." (MEMORANDUM, P. 15) PLEASE COMMENT.

A. This is simply incorrect. Both Automatic Number Identification (ANI) and answer supervision have been available to OCCs since 1982. If MCI and other OCCs do not receive ANI and answer supervision, it is because they have chosen to use Feature Group A access as opposed to other options available to them.

ANI is available through Feature Group B Direct to 69% of the customer lines served by C&P of Virginia. Answer supervision is available through Feature Group B Direct and Feature Group B Tandem arrangements for 100% of C&P customer lines. At least one OCC, SBS, is using Feature Group B

Tandem and receives answer supervision on all calls. Both ANI and answer supervision have been available since 1982 under the prior ENFIA tariffs.

Q. MCI ALSO CLAIMS THAT IT "MUST CONNECT TO THE LINE-SIDE OF THE LOCAL EXCHANGE SWITCH." (MEMORANDUM, P. 15) IS THIS CORRECT?

A. No. MCI has alternatives to line-side connection.

Trunk-side connections have been available to MCI and other OCCs since early 1982 via the ENFIA B and C arrangements, and such connections are currently available to them under Feature Group B at the same tariff rates as Feature Group A.

Q. MCI ALSO ASSERTS: "FINALLY THE OCCS ARE EFFECTIVELY EXCLUDED FROM SERVING CUSTOMERS WHO HAVE ROTARY DIAL TELEPHONE INSTRUMENTS." (MEMORANDUM, P. 16) IS THIS CORRECT?

A. Again, this is simply incorrect. Had MCI ordered ENFIA B or Feature Group B Direct, it would have had, and would today have, access directly to rotary dial telephones.

Q. MCI CLAIMS TO REQUIRE ECHO SUPPRESSORS TO "MITIGATE SOME OF THE NEGATIVE CONSEQUENCES OF THEIR INFERIOR CONNECTIONS." ARE ECHO SUPPRESSORS REQUIRED FOR VIRGINIA INTRASTATE SERVICE?

A. No. Due to the relatively short distances involved in Virginia intrastate toll calls (maximum of about 425



facility route miles), echo is not a significant concern.<sup>5/</sup> C&P did not use echo suppressors on intrastate circuits and neither does AT&T Communications of Virginia. If, in fact, an OCC experiences echo problems on Virginia intrastate calls, it is not due to the facilities provided by C&P of Virginia, but is due, in all probability, to how the OCCs have engineered their networks. The locations of the OCC switches and their network arrangements for routing calls could add substantial mileage on intrastate calls, thereby creating echo problems.

Q. HOW DO FEATURE GROUPS A AND B COMPARE IN PRICE?

A. There is no difference in the prices for Feature Group A and Feature Group B. They cost the same to the OCC.<sup>6/</sup>

Q. IS USE OF FEATURE GROUP B A LOGICAL TRANSITION STEP TO THE FEATURE GROUP D EQUAL ACCESS ARRANGEMENT FOR THOSE OCCS CURRENTLY USING FEATURE GROUP A?

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<sup>5/</sup>

The rules typically used by the OCCs "[s]pecify that echo suppressors are to be applied to all circuits that exceed 667 miles." USTS and SPC, Joint Information Submission, Section 3.5, FCC CC Docket No. 78-72, Phase I.

<sup>6/</sup>

As is shown on Attachment A, page 3, even prior to the access tariff Feature Groups, the difference in price between ENFIA A connections and the better quality ENFIA B and C connections was small. As shown on the Attachment, ENFIA B with Automatic Number Identification, access to rotary telephones and transmission quality equivalent to AT&T Communications service cost only between \$.0026 and \$.0042 per minute more than the ENFIA A interconnection arrangement.

- A. Yes it is. The major change for an OCC in moving from Feature Group A to Feature Group D is the change from line-side interconnection arrangements under Feature Group A to trunk-side interconnecting arrangements under Feature Group D.

Since Feature Group B is also a trunk-side interconnecting arrangement, the OCCs can begin the transition to equal access by converting to Feature Group B access. This can be done for originating traffic, terminating traffic or both. By planning the conversion process with C&P, the OCCs can implement Feature Group B in designated Feature Group D offices, either end offices or designated equal access tandems. Under C&P's intrastate access tariff Section 6.7.6, carriers will not incur any up-front charges to switch from Feature Group B to D when D becomes available in an end office.

- Q. CAN YOU DESCRIBE THE FEATURE GROUP C ACCESS ARRANGEMENT THAT WILL BE USED BY AT&T COMMUNICATIONS UNTIL EQUAL ACCESS IS AVAILABLE?

- A. Yes. AT&T Communications of Virginia will generally retain the interconnection arrangements it has with C&P of Virginia today and will be charged for these arrangements under the access tariff as Feature Group C. These arrangements, in

most cases, provide a direct connection from an AT&T Communications switch to a trunk termination in an end office. The remaining end offices are accessed through a tandem switch at Onancock.

Under Feature Group C, customers will continue to use AT&T Communications as they do today, using 7 or 10 digits (along with a "1+", where required), to complete their interLATA calls.

- Q. IN YOUR VIEW, WHAT IS THE BEST ACCESS ARRANGEMENT AVAILABLE TODAY TO THE OCCs IN VIRGINIA?
- A. The best access arrangement available to the OCCs is Feature Group B, which provides a mix of direct trunks to C&P end offices and tandem trunks to C&P access tandem offices. It is best to discuss originating access (access from a calling customer to the OCC) and terminating access (access from the OCC to a called customer) separately.

To obtain the best access in the originating direction at any No. 1 ESS, No. 1A ESS or other appropriately equipped electronic switching offices which the OCC desires to serve, an OCC would order Feature Group B Direct with the non-chargeable Automatic Number Identification (ANI) and rotary-dial options. Through the ANI and rotary-dial options, an OCC could serve all customers connected to such

offices (approximately 69% of C&P of Virginia's customer lines), regardless of the type of station equipment they have and without the need for dialing a PIN. Because the trunks would be direct, the transmission quality would be fully equal to that afforded AT&T Communications. The only difference between such access and that provided AT&T Communications would be the need to dial seven additional digits to reach the OCC.

For customers not served by such offices, the OCC would order the Feature Group B Tandem arrangements. This would enable all other customers to reach the OCC. Those with TOUCH-TONE-type stations would need no additional equipment, but would need to use a PIN. Those with rotary-dial telephones would need an inexpensive auxiliary tone pad <sup>1/</sup>or conversion to Touch-Tone equipment.<sup>8/</sup> The transmission quality, although improved over that typically provided with Feature Group A, would generally not be as good as that of a direct connection, until the tandem switches and associated facilities are upgraded with equal access.

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<sup>1/</sup>

As indicated in Attachment A, page 5, this auxiliary pad is offered by GTE-Sprint as a "[s]imple and inexpensive conversion device [which] will adapt [a customer's rotary phone] in seconds."

<sup>8/</sup>

TOUCH-TONE service is currently available to 100% of C&P of Virginia customers. Almost 60% of these customers currently use TOUCH-TONE Service.

In the terminating direction, the OCC would order either Feature Group B Direct or Tandem. With Feature Group B Direct, the terminating access (from the OCC to the called party) is equal to that of AT&T Communications' Feature Group C. With Feature Group B Tandem, the only departure from equal access would be the slightly reduced transmission quality, again only until the transmission performance of the access network is upgraded to the equal access standard.

All Feature Group B arrangements are trunk-side, not line-side, connections. This provides the OCC trunk-type signaling, including MF addressing, trunk testing capabilities, and answer and disconnect supervision. Since Feature B is available at the same tariff rates as Feature Group A, a change to Feature Group B would be a logical transition step toward Feature Group D equal access for those OCCs currently using Feature Group A.

Q. EARLIER YOU STATED THAT ANY QUALITY OR TECHNICAL LIMITATIONS WHICH THE OCCS EXPERIENCE WITH THEIR INTERCONNECTION ARRANGEMENTS ARE THE RESULT OF THEIR CHOOSING NOT TO PURCHASE THE BETTER AVAILABLE INTERCONNECTIONS. UNDER C&P'S ACCESS SERVICE TARIFF, ARE THE OCCs CONSTRAINED TO USE AN INTERCONNECTION ARRANGEMENT WITH THOSE LIMITATIONS?

A. No. As with prior ENFIA arrangements, the OCCs need not experience the technical drawbacks of which they have complained if they are willing to purchase the superior interconnections afforded by Feature Group B. Only if they persist in choosing Feature Group A arrangements will they have to deal with those technical limitations.

The features of the access arrangements available to interexchange carriers prior to the availability of equal access, including those available to AT&T Communications under Feature Group C, are shown on Attachment A, page 4. As that Attachment shows, Feature Group B offers considerably more features and better quality than is available with Feature Group A, and at the same tariff rates.

The key difference that remains between Feature Group B and Feature Group C is the necessity, under Feature Group B, to dial extra digits to reach the OCC. The willingness of customers to dial extra digits when placing calls is demonstrated by the enormous growth of the OCCs over the past few years and by the success of AT&T's credit card calling, which requires customers to dial 14 extra digits. Moreover, according to MCI advertising, its business customers can use their existing phones and need not dial extra digits. MCI offers "Advantage Service," which it describes as follows:

Now Advantage Service makes MCI as easy to use as Bell. Now you can get MCI savings without giving up anything. With new MCI Advantage Service, you dial every number exactly as you would with Bell. You simply dial the area code and the local number. We think that's important enough to bear repeating. You dial every number exactly as you would with Bell. You use the same phones you're already using. Either push-button or rotary. And there are absolutely no extra numbers to dial."  
(See Attachment A, p. 9)

MCI states further in its 1984 Annual Report that:

Advantage offers maximum savings and convenience to small business customers. This 'miracle in a

small box' -- in this case a microprocessor inspired by MCI, built to our specifications and installed at a customer's location -- automatically dials the customer's access number and authorization code and can be used by rotary dial phones to access MCI. Advantage customers increased nearly five-fold last year from 13,000 to 70,000. (See 1984 Annual Report, MCI Communications Corporation, pp. 12-13).

Q. CAN YOU DESCRIBE THE FEATURE GROUP D EQUAL ACCESS ARRANGEMENTS THAT C&P IS IMPLEMENTING IN RESPONSE TO THE MFJ?

A. Yes, I can. Under the MFJ, C&P of Virginia is required to provide exchange access equal in type and quality to that provided AT&T Communications. C&P of Virginia will deploy additional capabilities in its end offices and Access Tandem switching systems to ensure its ability to provide equal exchange access services to all interexchange carriers. The major features that will be made possible through these additional capabilities include the following: (1) customers will be able to select from among interexchange carriers and complete calls over their networks using a 5-digit access code of the form "10XXX" plus the 7- or 10-digit number of the called party, from both rotary-dial and TOUCH-TONE telephones; (2) ANI will be available to interexchange carriers on all calls; (3) customers will be able to request that C&P of Virginia automatically route their calls to a particular interexchange carrier without having to use an access code ("pre-subscription"); (4) call detail information necessary for interexchange carriers either to bill their own customers or to use C&P of Virginia's billing services will be provided; and (5) answer

supervision will be provided. A more complete list of the features associated with equal access Feature Group D is shown on Attachment A, page 7.

These equal access features will be available on all major electronic switching systems, including the Western Electric No. 1 ESS, No. 1A ESS, No. 1A Hi-Lo ESS and No. 5 ESS. Full equal access capabilities will also be available on two smaller electronic switching systems -- the Western Electric No. 2B ESS and the Northern Telecom DMS-10. C&P of Virginia, as outlined in the Bell Atlantic Telephone Companies' Equal Access Compliance Plan filed with Judge Greene on June 22, 1984, will begin to offer equal access in September, 1984, in the Norfolk area and will offer equal access to 64.1 percent of its customer lines by September 1, 1985; to 90.6 percent by September 1, 1986; and to 94.7 percent by September 1, 1988.

Access tandem switching systems will provide points within each LATA for concentrating and distributing the traffic of interexchange carriers, including AT&T Communications, when direct connections to each end office in the LATA from each interexchange carrier's Point of Presence (POP) would not be justified economically. Thus, by means of a single trunk group from an interexchange carrier's POP to the access tandem switching system, the interexchange carrier will obtain equal access to many C&P of Virginia end offices.



Where necessary, C&P will upgrade switching systems used as access tandems and will upgrade transmission facilities used to connect both end offices to access tandems and access tandems to interexchange carrier POPs. This will ensure that the principal transmission parameters of loss, noise, and echo return loss and also the probability of blocking will be equal for all interexchange carriers, whether access is provided using a direct connection, a connection via an access tandem, or a combination of the two.

C&P of Virginia's equal access tandem plans were also included in Bell Atlantic's June 22, 1984 filing with Judge Greene and are as follows:

<u>LATA</u>	<u>EQUAL ACCESS TANDEM</u>	<u>AVAILABLE FOR SERVICE</u>
Culpeper	Culpeper	4Q '85
"	Fredricksburg	1Q '85
"	Leesburg	3Q '85
"	Winchester	2Q '85
Lynchburg	Lynchburg	2Q '85
"	Danville	2Q '85
Norfolk	Norfolk	3Q '84
"	Onancock	3Q '86
Richmond	Richmond	2Q '86
Roanoke	Roanoke	1Q '85
"	Norton	2Q '85
"	Staunton	3Q '85
Washington	Southwest D.C.	3Q '85

Q. BASED ON YOUR ANALYSIS, IS THERE ANY TECHNICAL BASIS FOR GIVING THE OCCS REGULATORY ADVANTAGES AS THEY SUGGEST?

A. Definitely not. OCCs such as MCI and GTE-Sprint, while complaining to regulators about "unequal access," claim publicly that their services provide transmission quality equal to that of AT&T. MCI goes so far as to provide a TV demonstration comparing a call over its network and that of AT&T and then stating:

"Can you tell the difference between AT&T and MCI?.... Neither can I." (See Attachment A, p. 8).

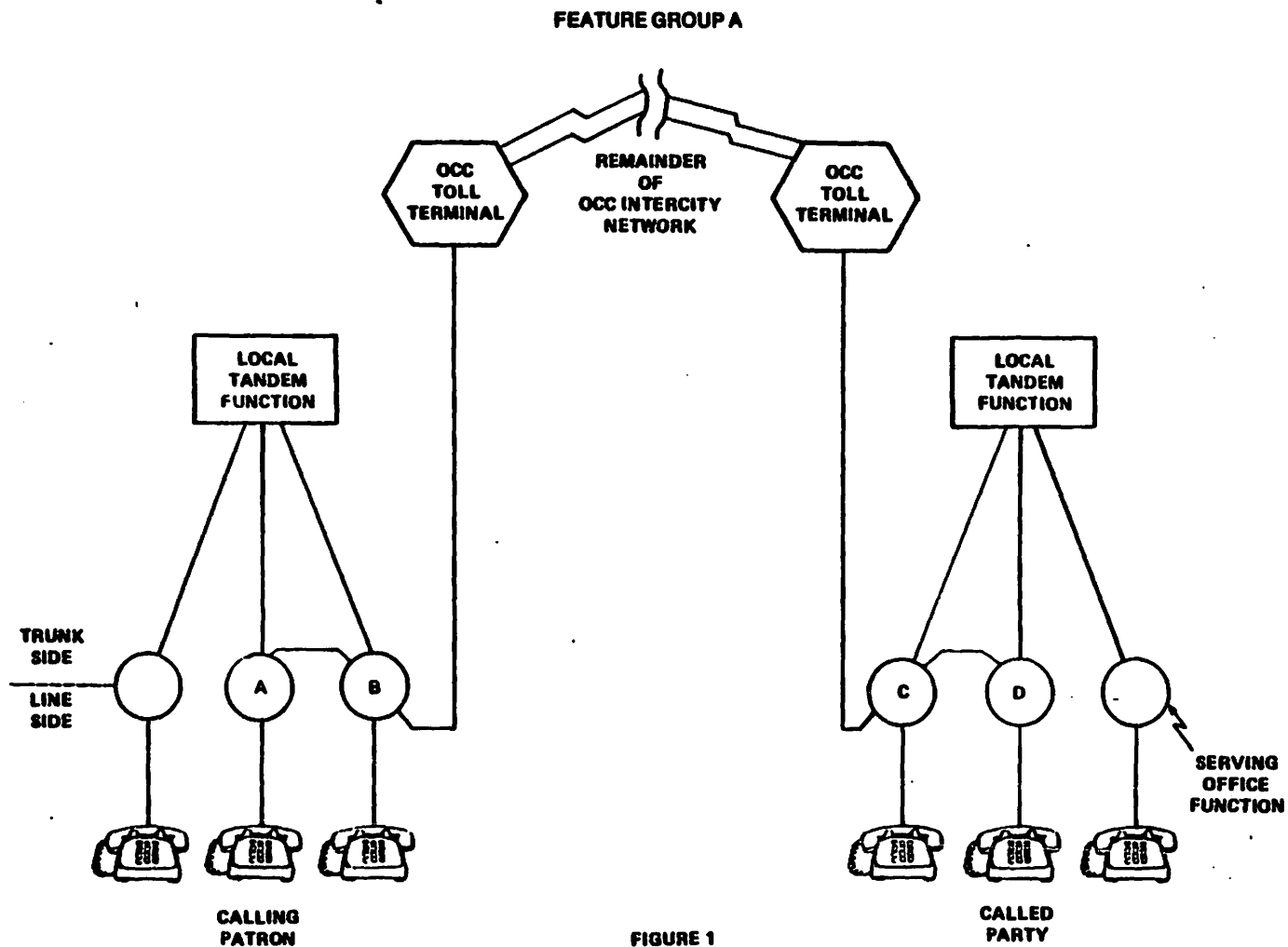
Virtually all of the claimed differences in transmission quality and other technical parameters between the interconnection arrangements used by AT&T Communications of Virginia and those used by the OCCs arise from the OCCs' choice of ENFIA A, the historically least costly form of interconnection, rather than the superior ENFIA B or C connections. Under current access tariffs, Feature Group B costs the same as the Feature Group A interconnection which the OCCs now generally use. Moreover, OCCs who switch now to Feature Group B will have in place the same kind of connection which they would use to take advantage of Feature Group D equal access, as C&P makes it available over the next two years.

In addition to the better quality access C&P offers to OCCs today, C&P will begin to convert to Feature Group D Equal Access in less than two months and it will have completed that conversion for over 90% of its customer lines in just a little over two years.

There is simply no technical basis for conferring artificial competitive advantages on the OCCs. This is without even considering the substantial competitive advantage the OCCs do have in the form of the large discounts they receive in the charges they pay for access when compared with the premium charges paid by AT&T Communications.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.



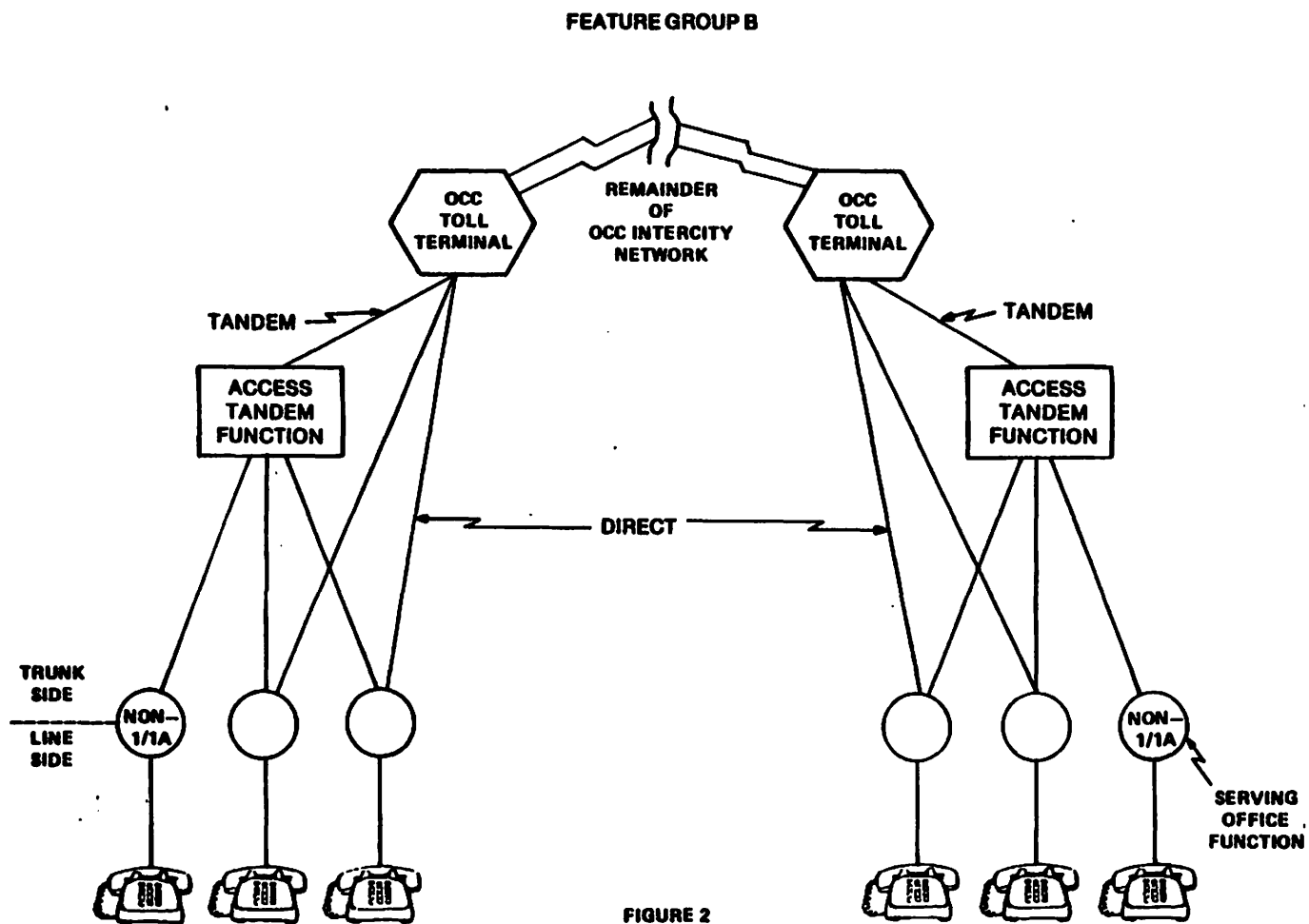


FIGURE 2

ATTACHMENT TO TESTIMONY OF JOHN D. SCHELL, JR.

EXHIBIT I

COMPARISON OF RATES  
ENFIA'S, A, B AND C

LOCAL SWITCHING AND TRUNKING<sup>1</sup>

ENFIA	OPTION(S) <sup>2</sup>	MONTHLY RATE	ADDITIONAL COST/MINUTE OVER ENFIA A <sup>3</sup>
A	two-wire, two-way	\$45.24*	
B	two-wire, two-way	\$43.24**	-
B	two-wire, one-way terminating arrangement	\$37.74##	-
B	two-wire, two-way and ANI and rotary-dial arrangements	\$68.32#	\$ .0026 to \$ .0042
C	two-wire, one-way terminating arrangement	\$85.56##	\$ .0045 to \$ .0074
C	two-wire, two-way	\$91.06**	\$ .0051 to \$ .0084

\* There is no difference in rate per month for options.

\*\* Four-wire arrangement would add \$9.15, or \$.0010 to .0017 per minute.

# Four-wire arrangement would add \$10.95, or \$.0012 to .0020 per minute.

## Four-wire arrangement would add \$14.65, or \$.0016 to .0027 per minute.

<sup>1</sup> The tariff rates for the central office connecting (COCF) facility and the Use of Jointly Used Subscriber Plant rate elements are independent of the type of ENFIA access. The COCF is provided under private line tariffs; and the monthly rate for the Use of Jointly Used Subscriber Plant is \$180.53. The variable rate element by ENFIA type is Local Switching and Trunking.

<sup>2</sup> This is a partial listing of options available.

<sup>3</sup> The monthly rates in the ENFIA tariffs were based on the weighted average OCC billed minutes of use per ENFIA per month, as reported by the OCCs. On June 10, 1983 the average minutes of use basis was changed to 5,435 minutes of use per line. In its Memorandum Opinion and Order in CC Docket No. 78-72, Phase I, released February 15, 1984, the FCC found that 9000 minutes of use per line reasonably approximated the current average usage per line. Hence, the range shown here is based on 5,435 and 9,000 minutes of use per ENFIA line, per month.

Source: Bell System Operating Companies Tariffs FCC Nos. 8 and 9.

TABLE 2  
ACCESS SERVICE  
INTERCONNECTION ARRANGEMENTS  
COMPARISON OF FEATURES

	<u>FG A</u>	<u>FG B</u>		<u>FG C</u> (AT&T)
		<u>DIRECT</u>	<u>TANDEM</u>	
TERMINATION TYPE	LINE	TRUNK	TRUNK	TRUNK
# OF DIGITS REQUIRED	22	17 #	22	10
UNIFORM ACCESS CODE	NO	YES	YES	N/A
SINGLE DIAL TONE	NO	NO	NO	YES
ANSWER SUPERVISION	NO	YES	YES	YES
MF SIGNALING	NO	YES	YES	YES
ANI	NO	OPTIONAL	NO	OPTIONAL
ROTARY DIAL	NO	OPTIONAL	NO	YES
ROUTINE TRANSMISSION TESTING	NO	OPTIONAL	OPTIONAL	YES
TRANSMISSION QUALITY EQUIVALENT TO AT&T	NO	YES	**	-
INTRA-LATA ACCESS	YES	YES	YES	NO

\*\* SOME DIFFERENCE POSSIBLE RELATIVE TO AT&T.

# 17 IF ANI OPTION IS SELECTED; OTHERWISE 22.

**Now Call Any State in  
the U.S. and Save!**

**SPRINT**

Mr. John D. Schell  
1417 Rosewd Hl Dr. R1  
Vienna, Virginia 22180

Dear Mr. Schell:

Do you pay more than \$25 for long-distance calls each month? If so, it's time to listen to some straight facts about saving up to 50% -- or more -- on these calls.

IMAGINE: CALL MOST ANYTIME YOU WANT. . .  
AND STILL SAVE MONEY!

Now there's no reason to put up with high rates -- or feel forced to wait to call at night or on weekends for lower rates. With SPRINT, you can save as much as 20, 30, even up to 50% on weekdays, weekends and holidays. And you can call any hour, except between 9-11 AM weekdays. (For actual rate comparisons, see the enclosed brochure.)

NOW YOU CAN SAVE ON ALL YOUR OUT OF  
STATE CALLS ANYWHERE IN THE U.S.!

For a \$5 subscription fee, you can now call any state in the entire country and save money with SPRINT. It's the first major discount long-distance service to offer such comprehensive coverage. You can save up to 50% calling thousands of SPRINT network cities, including those listed in the enclosed brochure.

And NOW, you can use SPRINT to make interstate calls anywhere else in the U.S. and save up to 35% -- that includes Puerto Rico and the U.S. Virgin Islands.

SPRINT SERVICE IS EASY TO GET  
. . .AND EASY TO USE.

No installation is required, and there is no set-up charge. All you need is an ordinary push-button phone. In fact, even if your phone has a rotary dial, our simple and inexpensive conversion device will adapt it in seconds!

(over, please...)



**SPRINT IS A NAME YOU CAN TRUST.**

For years, we've been helping people realize big savings by using SPRINT in conjunction with their existing phone services. In fact, well over a half million people are saving money with SPRINT. Now you can enjoy these savings, too.

**HOW DOES SPRINT WORK?**

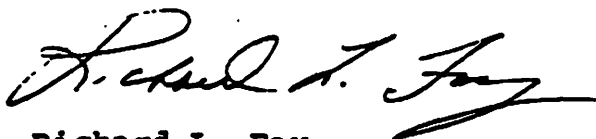
It's simple. Just punch in your local "access number", followed by the personal "authorization code" that's yours alone. Then punch in the number you wish to reach. It's that easy!

**THE SOONER YOU CALL,  
THE SOONER YOU START SAVING.**

Why put up with the phone company's high long-distance rates? SPRINT and your phone can save you up to 50%. Order your SPRINT long-distance service right away. Call TOLL-FREE (800) 521-4949; in Michigan call (313) 645-6020. Our long-distance specialists will check to make sure you can call anywhere across the country with SPRINT from your neighborhood . . . and they'll tell you how much you can save where and when you call most often.

Now that you've heard the straight talk about SPRINT, isn't it time to go straight to your phone?

Sincerely,



Richard L. Fay  
Manager, Residential Services

RLF/cd

P.S. SPRINT can save you money when you're away from home, too. When you call, ask us about SPRINT Travelcode!"

TABLE 3  
ACCESS SERVICE  
INTERCONNECTION ARRANGEMENTS  
COMPARISON OF FEATURES

	<u>FG A</u>	<u>FG B</u>		<u>FG D</u> (EQUAL ACCESS)		<u>FG C</u> (AT&T)
		<u>DIRECT</u>	<u>TANDEM</u>	<u>DIRECT</u>	<u>TANDEM</u>	
TERMINATION TYPE	LINE	TRUNK	TRUNK	TRUNK	TRUNK	TRUNK
# OF DIGITS REQUIRED	22	17 #	22	15*	15*	10
UNIFORM ACCESS CODE	NO	YES	YES	YES	YES	N/A
SINGLE DIAL TONE	NO	NO	NO	YES	YES	YES
ANSWER SUPERVISION	NO	YES	YES	YES	YES	YES
MF SIGNALING	NO	YES	YES	YES	YES	YES
ANI	NO	OPTIONAL	NO	OPTIONAL	OPTIONAL	OPTIONAL
ROTARY DIAL	NO	OPTIONAL	NO	YES	YES	YES
ROUTINE TRANSMISSION TESTING	NO	OPTIONAL	OPTIONAL	YES	YES	YES
TRANSMISSION QUALITY EQUIVALENT TO AT&T	NO	YES	**	YES	YES	-
INTRA-LATA ACCESS	YES	YES	YES	YES	YES	NO

\* 10 DIGITS IF SELECTED BY SUBSCRIBER AS CARRIER OF CHOICE  
(PRESUBSCRIPTION).

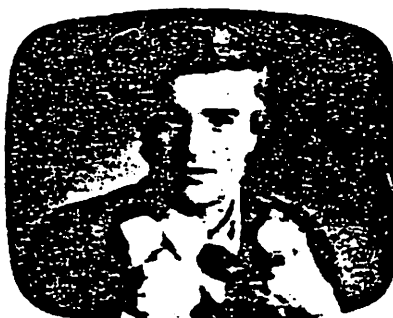
\*\* SOME DIFFERENCE POSSIBLE RELATIVE TO AT&T.

# 17 IF ANI OPTION IS SELECTED; OTHERWISE 22.

# Radio TV Reports

41 East 42nd Street New York N.Y. 10017  
(212) 599-5500PRODUCT: MCI  
PROGRAM: \$25,000 PYRAMID 2/2/84  
WCBS-TV (NEW YORK)84-02112  
30 SEC.  
10:10AM

1. MAN: I've just placed two long distance calls.



2. One on AT&T, the other on MCI. Listen.



3. WOMAN'S VOICE: Light cold. Highs in the low to mid 20's. Precipitation probability decreasing to 20%.



4. MAN: Can you tell the difference between AT&T and MCI?



5. Neither can I.



6. That being the case, why don't you call MCI?



7. And start saving up to 30, 40, even 50%.



8. To any other phone, in any other state, from coast to coast.



9. That's what I'd do...

# If savings of up to 50% aren't enough incentive to join MCI

When MCI first started offering low cost long distance service, half the Fortune 500 jumped at it.

They found savings of 5 to 50% were a big incentive. In some cases, it added up to more than a million dollars a year.

But some companies hung back. They wondered what they would have to give up. Would they have to learn new habits? Would they be able to call anywhere, anytime?

So they waited to see how it worked out for others. Now they can share caution to the wind.

**New Advantage Service makes MCI so easy to use as Bell.**

Now you can get MCI savings without giving up anything. With new MCI Advantage Service, you dial every number exactly as you would with Bell. You simply dial the area code and the local number.

We think that's important enough to bear repeating. You dial every number exactly as you would with Bell.

You use the same phone you're already using. Either push-button or

rotary. And there are absolutely no extra numbers to dial.

At the heart of the Advantage Service is an electronic switch in your company's telephone room.

This switch will automatically route all your calls over the cheapest possible line.

Call any other phone in any other state from coast to coast.

Some businesses have held back from joining MCI because they didn't think MCI went everywhere they called.

From most major cities, you can reach any other phone in any other state from coast to coast. Not just the major business centers, but even the most remote phone in the most remote town.

So you save on every business call.

**Every single call.**

**New MCI WATS.** The cheapest way to get a WATS line. You might ask how MCI ends up against Bell's famous WATS line. Well, guess you called. MCI now has its own WATS line

service. You'll find it's exactly the same as Bell's, but it costs much less.

Learn more ways to save money at the MCI Education Center.

Today, you have a wider choice of telephone equipment and services than ever before.

With these more opportunities to save than ever before.

The MCI Education Center offers one and two-day seminars in cities across the country. These seminars

can show you ways to improve your phone service, while you sharply reduce your costs.

Take your savings on the road with an MCI Travel Card.

When you join MCI, all of your employees can get an MCI Travel Card.

Then they can take MCI savings on the road with them. Any MCI calls they

make are automatically billed to your office.

If you would like to know more about MCI, simply fill out the coupon and mail it to us. We'll be happy to send you a free brochure.

Or call your local MCI sales office.

If all these new locations aren't enough to get you to join MCI, check out our original one. Savings.

## MCI

MCI Telecommunications Corp.  
601 New Orleans Avenue, VA 22096

Please send me more information about:

☐ Bell-based Service

☐ Business Service

☐ Telecommunications Features

Name \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_

State \_\_\_\_\_

Zip \_\_\_\_\_

Daytime Phone \_\_\_\_\_

Evening Phone \_\_\_\_\_

Telex \_\_\_\_\_

Mail to: MCI Telecommunications Corp., Dept. 1000, 601 New Orleans Avenue, VA 22096

18 BY MS. McCAREY: (Continuing)

19 Q Was that prepared by you or under  
20 your direction?

21 A Yes, it was.

22 Q And if I were to ask you those same  
23 questions today, would your answers be the same?

24 A Yes, they would.

25 Q Do you have any corrections to that

testimony?

A No, I do not.

MS. McCAREY: I would ask then that this be accepted into evidence in this case.

COMMISSIONER SHANNON: It will be accepted, subject to cross-examination.

BY MS. McCAREY: (Continuing)

Q Mr. Schell, do you have a summary of your testimony?

A Yes, I do.

Q Would you please give that now.

A All right. In my testimony, I describe and compare the interconnection arrangements available to the other common carriers and AT&T Communications for interconnection of their facilities with the local exchange network of the C&P and independent telephone companies.

Under the Access Service Tariffs, OCCs may choose either a line-side interconnection arrangement, Feature Group A, or a superior trunk-side interconnection arrangement, Feature Group B. With Feature Group B, an OCC may choose either a direct connection from its terminal location to an end office or a connection to a tandem office, which is, in turn,

connected to many end offices. The Feature Group B Direct and Tandem arrangements offer improved transmission quality and more features than Feature Group A and at the same tariff rates.

Feature Group B provides multi-frequency address signaling and trunk signaling protocols including answer and disconnect supervision. In addition, Feature Group B Direct provides access to rotary-dial telephones and Automatic Number Identification and transmission quality equal to that provided to AT&T Communications.

Some OCCs have stated that there are trunk group inefficiencies associated with using Feature Group B Direct arrangement, as compared to, for example, Feature Group A. In other words, with the Feature Group B Direct arrangement, that they would be unable to utilize the local network in a single serving office as funnels or concentrators to improve their trunk group efficiency. Thus they claim it would take more trunks to serve each end office directly, and this would require additional switching investments on their part, as compared to the Feature Group A or Feature Group B Tandem access arrangement.

AT&T Communications' direct trunk

1 access under Feature Group C uses the same type of  
2 individual trunking to the end offices as the OCCs  
3 would need to use Feature Group B Direct. Simply  
4 stated, if an OCC wishes to offer services that match  
5 AT&T's in quality, they must be willing to make the  
6 necessary investments in their plant.  
7

8 Finally, in my testimony, I describe  
9 the equal access arrangements that are being implemented  
10 by C&P of Virginia. In just a little over two years,  
11 C&P will offer equal access to over 90 percent of its  
12 customer lines.

13 In summary, OCCs could have chosen  
14 Feature Group B interconnection arrangement at any time  
15 since they became available as ENFIA B and C in  
16 February of 1982. At least one OCC, SBS, did choose  
17 to use the ENFIA C or Feature Group B Tandem arrangement.  
18 Hence, most OCCs made a business decision to continue  
19 to use the Feature Group A interconnection arrangement,  
20 after the Feature Group B arrangements became available,  
21 and should not now be granted regulatory advantages  
22 based on this business decision.

23 That concludes my summary.

24 MS. McCAREY: Mr. Schell is available  
25 for cross-examination.



COMMISSIONER SHANNON: Mr. Gillespie?

MR. GILLESPIE: No questions, Your

Honor.

COMMISSIONER SHANNON: Mr. Gambardella?

MR. GAMBARDELLA: Yes, sir.

CROSS-EXAMINATION

BY MR. GAMBARDELLA:

Q Mr. Schell, do you think that every time there is a technological change in the industry that it ought to be adopted?

A No.

Q In other words, the competitors in the market ought to be able to adopt whatever technology they think is in their best interest; is that right?

A I think that all competitors in the telecommunications market ought to be able to choose the equipment and the arrangements that they want to use to serve their customers. I think that, you know, in my comments on the Feature Group A form of interconnection that the OCCs use, I did not intend to be critical of that. That was a business decision they made. I simply pointed out that there were alternative business decisions they could have made, had they so chosen.

Q And those alternative business decisions, by and large, would have required additional investments I believe you said; is that correct?

A Yes, they would have required additional trunk terminations on their switching systems if they had chosen to obtain quality that was equal to AT&T Communications.

Q And that would likely have required them to increase their rates, assuming the competitive market would allow them to do so; is that right?

A Not necessarily, no. The SBS currently uses the Feature Group B Tandem arrangement, or the ENFIA C arrangement. I have not compared SBS's rates to, for example, Sprint or MCI, but, you know, it's not -- the amount of investment that the OCCs currently make to use the Feature Group A form of interconnection with its line-side signaling arrangements could potentially cost them more than the trunk-side connections that are available under Feature Group B.

Let me explain what I'm trying to say. The OCCs have testified before the FCC in Docket 78-72 that their switching systems come standard with trunk-type signaling arrangements, and that they then must modify these trunk-type signaling arrangements

to a line-side configuration to use Feature Group A.

And they spend money to do that. Now, if they were to have stayed with the trunk-side form of interconnection, and used ENFIA B or C, they wouldn't have had to make those modifications. They would have used more trunk terminations on their switch; but on balance, it is possible that there would not have been a difference in investment.

Q Did you compare SBS's rates to AT&T Communications' rates?

A No, I don't have them with me.

Q You haven't compared them to the other OCCs?

A No.

Q So you don't know whether they're higher or lower or in between?

A No, I don't. And I would also point out that SBS is a satellite-based carrier as opposed to a terrestrial-based carrier, and their satellite-based arrangement may well have a significant difference in how they, you know, and what their costs are, as opposed to a terrestrial system.

MR. GAMBARDILLA: That's all I have,

Your Honor.

COMMISSIONER SHANNON: Mr. Moore?

## 2 CROSS-EXAMINATION

3 BY MR. MOORE:

4 Q Mr. Schell, I believe you said in your  
5 summary that the purpose of your testimony is to compare  
6 the interconnections now available, and I guess to be  
7 available, also, to the OCCs with that available from  
8 AT&T; is that right?

9 A Yes, I did.

10 Q And you are AT&T's expert in this  
11 area, aren't you?

12 A I am the Eastern Region of AT&T  
13 Communications' expert.

14 Q Okay. And I believe you said that the  
15 testimony and the exhibits here were prepared by you or  
16 under your supervision and direction; is that right?

17 A Yes, I did.

18 Q And when you put a list of features or  
19 give us percentages, whose idea is it to put that in;  
20 yours?

21 A That has been a standard part of my  
22 testimony for almost a year. It has been filed in Virginia,  
23 Maryland, New Jersey, and Pennsylvania.

24 Q But when, when John Schell puts a list  
25 in here, it's because John Schell thinks it's important?

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A Oh, absolutely, yes, sir.

Q Right. And you didn't get those ideas from somebody else; they are John Schell's?

A It's my testimony, yes.

Q Right. And it's your opinion that the features you discuss and the percentages and the availability that you refer to in there are there because you and AT&T think they're important for this Commission?

A Because I think they're important, yes.

Q All right, sir. Now, you indicate in your testimony that MCI and the other OCCs have control over the quality of the interconnections, and I think you just, in your summary, reviewed how they might now choose Feature Group B, either Direct or Tandem, and you were very careful, I think, in your testimony, I think, to say these additional offerings came about in 1982; is that right?

A February of 1982.

Q And before that time, as a practical matter, the OCCs had to take what amounted to Feature Group A?

A That is -- well, the OCCs, specifically MCI, originally asked for a plain form of interconnection

similar to an FX arrangement, and they asked for those directly of AT&T, and those were the arrangements that were originally provided as the original ENFIA A tariff.

Subsequent to that time, carriers, including MCI, came back and said we would like a better form of interconnection. We would like trunk-side connections. And most trunk-side connections later became available in 1982 as ENFIA B and C.

Q Is it your testimony that MCI and the others had other options before 1982?

A It is my testimony that before 1982, MCI had available to it the interconnection arrangement it had originally requested, and had fought through the courts and the FCC to use.

Q All right. If they had tried to negotiate for a special interconnection like AT&T of Virginia has, the Feature Group C -- is that the right word for it?

A Um-hum.

Q They would have been negotiating with the company that in effect they were trying to compete with; right? Prior to 1982.

A They would have been -- they would have been discussing their requirements under the auspices of the FCC with AT&T.

Q Right. Okay. And is it your testimony that neither MCI nor any other company prior to 1982, indicated a desire for trunk-side connections?

A Oh, no, I'm saying that prior to 1982, actually about the time that the ENFIA A tariff became available in 1979, the BSOC No. 8, Bell System Operating Companies FCC No. 8 became available. Shortly after that became available in 1979, Sprint, MCI, SBS, et al, began to ask for improved forms of interconnection. And there were meetings that were held under the auspices of the FCC which became known as the ENFIA 2 meetings, in which all possible combinations of things that could be offered by the existing network were discussed, together with what the OCCs desired in the form of interconnection. And the end result of those discussions were the ENFIA B and C tariffs, actually Bell System Operating Companies FCC Tariff No. 9, which became effective in February of 1982. So there was about two years, or a year of discussion in there that predated that.

Q Well, from '79 to '82, a couple of years, to get through the discussions?

A Um-hum.

Q Okay. Now, let's look, if we can, and I'd like to review with you the various feature groups,

and I don't want to be tedious, but I would like to go through. You pay for Feature Group A by the circuit? If I have one Feature Group A to serve the Richmond area, I pay per circuit, is that how I pay for Feature Group A?

A Under the FCC arrangement that's in effect today, you pay for Feature Group A on a line basis.

Q On a line basis, okay. Is that a flat-rate basis?

A Where it cannot be measured, it's a flat rate of 9,000 minutes of use. If it can be measured, it's based on measured use.

Q Okay. Is it essentially a flat rate in most places? What about in Virginia?

A C&P does have measurement capability in some offices.

Q Some offices. Do you know how many?

A I believe they would have measurement capabilities on any 1A, 1 ESS, or other stored program control switches that currently would provide your access.

Q Okay.

A Possibly, I believe, they may have also put measuring capabilities on No. 5 cross-bars also.

Q Do you know that? Have you looked



into this, or do you know?

A I have looked into it in the past not in the specificity of listing each location where --

Q I'm talking about for Virginia, C&P in Virginia, have you looked at it to see?

A I do not have a list of specifically where in Virginia they can measure or cannot measure; no, I don't have that.

Q And you can't tell this Commission whether it's 50 percent, 20 percent or 80 percent, where that could be done?

A Not with certainty, no.

Q All right. Thank you. Well, that's what we would like to have if we could.

Now, in your diagram, I believe you point out that with Feature Group A, the dialer has to have tone capacity of some kind; right?

A That is correct.

Q All right. And he's either got to convert his phone or use a tone pad?

A That's correct.

Q If he converts his phone, he's got to go buy a new phone, and he's got to pay a conversion charge, and if it's C&P, that's \$10.80; isn't it?

1                   A           For a residence.

2                   Q           For a residence. Higher for business?

3                   A           It's a little higher for a business,  
4  
5                   yes.

6                   Q           Right. And then he's got to pay a  
7                   monthly charge of \$1.25 for a residence?

8                   A           Um-hum.

9                   Q           And double that for business?

10                  A           Well, it might be, yeah.

11                  Q           Okay.

12                  A           Let me point out though you've  
13                  presumed that the customer is going to go out and do  
14                  all these things to, in effect, take advantage of  
15                  TOUCH-TONE service.

16                  Q           I haven't assumed anything; I'm  
17                  simply asking you if he wants to deal with MCI, he's  
18                  either got to have a tone pad --

19                  A           Yeah.

20                  Q           -- or he's got to do one of these  
21                  things?

22                  A           Yeah. And he either has to have this,  
23                  which is a Touch-Tone pad that's widely available in  
24                  Virginia. This was purchased in Virginia at a Radio  
25                  Shack for 25 bucks, and, also, in terms of the TOUCH-TONE

availability, C&P currently provides TOUCH-TONE to 60 percent of its base of customers. It has TOUCH-TONE available to 100 percent of its customers, and the OCCs -- I'm sorry -- the independent companies have TOUCH-TONE available to 99 percent of their customer lines. So, obtaining TOUCH-TONE service in Virginia is not difficult. Obtaining a tone generator to use in Virginia is not difficult.

Q Okay, thank you. And we're either going to have to use that machine you've just laid out here or we are going to have to convert, and it is your testimony that 99 percent of the other companies, other than C&P, can have TOUCH-TONE, and a hundred percent of C&P can have TOUCH-TONE?

A To my knowledge, there are six exchanges served by independent companies in Virginia that cannot provide TOUCH-TONE.

Q Did you find that out over the weekend or --

A No, sir, before the weekend.

Q I see. That wasn't in your prefilled testimony; was it?

A No, but I had it in my back-up binder Friday.

Q Now, once you convert to TOUCH-TONE one way or the other, you've got to use 22 numbers, basically, under Feature Group A?

A You would use 22 numbers, yes.

Q All right. And if you're going to deal with AT&T, you don't need to buy one of those machines that you've laid out here, or have your phone converted, or dial 22 numbers; right?

A If MCI would have chosen to use the ENFIA B or Feature Group B Direct, they wouldn't have to dial all those numbers with MCI either.

Q Okay.

A But what you said is correct of AT&T.

Q All right, thank you. We'll get to the other. Comparing it now to Feature Group A, just dealing with Feature Group A and AT&T right now --

A All right.

Q All right. Let's look then at Feature Group B which you raise. I believe you say there are two kinds of Feature Group B's: the Feature Group B Direct and Feature Group B Tandem?

A That is correct.

Q Is that right?

A That is correct.

Q With Feature Group B Direct, I think you said you get Automatic Number Identification and you can deal with the rotary-dial customer; right?

A That is correct.

Q Okay. You pay for Feature Group B the same way you pay for Feature Group A, that is, essentially, on a flat-rate basis?

A In the Federal Jurisdiction, yes.

Q All right, what about here?

A The current tariff that's on file here, unless C&P has revised it recently, was the original, mirrored the original FCC tariff last fall, and those usages were based on busy hour/minutes of capacity where it could be measured.

Q And if C&P goes to what is the, what is now before the FCC --

A The flat rate.

Q -- the flat rate. Will that be flat rate?

A It would be flat rate if they converted to it.

Q All right.

A That's not to say necessarily though that they would use automatically the 9,000 minutes of use

that the FCC did. They may choose different minutes-of-use basis.

Q Lower or higher?

A It could be either.

Q All right. I believe in your testimony and in your summary this morning, you said that there's no cost difference between Feature Group A and Feature Group B; is that right?

A I said there's no tariff rate difference between A and B.

Q No tariff rate difference. Okay. That means if I've got to pay \$29.95 for Feature Group A every month, I've got to pay \$29.95 for Feature Group B Direct every month?

A Um-hum.

Q Is that right?

A (Nodding head in the affirmative.)

Q Now, if I shift from an A to a B, is there a conversion charge for the OCC?

A There is a conversion charge for an OCC to change from Feature Group A to B or to D. There is no conversion charge or no non-recurring charge up front to change from Feature Group B to D in the same office.

Q Right. Now, Mr. Schell, if I had an

area that had five end offices in an area where an OCC originates calls, we could operate with one Feature Group A; isn't that right?

A You could choose to do that.

Q Right. And if I wanted to go to Feature Group B Direct, I believe your testimony is that I would need five Feature Group B Directs; right, in my example?

A You would need one circuit to each of the offices, similar to the way AT&T interconnects.

Q Okay. So then, in our comparison, I'd have to pay for five Feature Group B Directs or one Feature Group A?

A Well, your hypothetical is a little impractical. It presumes that somehow you were going to serve the traffic originating out of five end offices with one line, and that you can also serve that traffic adequately with one line to each of them individually. In all probability, you would have more than one line and the traffic -- the cost differences would not be as great as you portray them.

Q But they would be great? You would have more Feature Group B Directs than you would Feature Group A's?

A Not in Virginia. That's the point I made earlier. Virginia's tariff is based on busy hour/minutes of capacity from your Point of Presence to the office. It is not based on the number of lines. That's true in the Federal Jurisdiction currently; but not in Virginia.

Q All right. So, in Virginia, if C&P chooses to track the Federal tariff, then what I have said would occur, that is --

A If they made that decision, that would occur, but it's not true today.

Q Right. Okay. And when you said in your testimony that there's no difference in the prices for Feature Group A and Feature Group B, they cost the same to the OCCs, you were really talking about, you assume the present tariff situation?

A Yes.

Q And you assumed that you were basically dealing with a per-circuit basis as opposed to comparing the number of circuits that one might need?

A Well, I was simply thinking on it as having a specified number of busy hour/minutes of capacity from a given terminal point, and, you know, there's no difference there in that arrangement or in the



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2 features and functions that are available between the  
3 different feature groups. I mean the cost is the same  
4 on that basis.

5 Q If they went to the Federal system,  
6 that would not be the case?

7 A If they went to the Federal system,  
8 then you would have a per-line charge, and your costs  
9 might be higher on direct trunking as opposed to using  
10 ENFIA A, Feature Group A.

11 Q Now, continuing with Feature Group B  
12 Direct, you say that you could have it on 69 percent  
13 of the C&P lines?

14 A That's correct.

15 Q Okay. Now, C&P has about two million  
16 lines?

17 A One million nine fifty-five,  
18 approximately.

19 Q Let's make it two million for the  
20 math.

21 A Okay, all right.

22 Q And that would mean that almost  
23 36 percent would not be able to be served by Feature  
24 Group B Direct?

25 A That 36 percent could be served by

Feature Group B Tandem.

Q All right. But that's 600,000 lines; isn't that right?

A Seventy percent -- yes.

Q Okay. Now, let's look at that, if we can. With Feature Group B Tandem, I don't have Automatic Number Identification; right?

A Not with the Tandem arrangement. You would with Direct.

Q So, if I'm MCI, my customer has got to dial, then he's got to dial in the seven -- his PIN, his Personal Identification Number, and then the number?

A Yes, he has to do that, but he'd have to do that in any case if he wished to have any billing arrangement other than charging it to the phone he's calling from, similar to a credit card.

Q Okay. So in the B Direct, he wouldn't have to use a Personal Identification Number, and he could reach the rotary-dial customers without one of those machines?

A Right.

Q But if it's B Tandem, I need one of those machines, and I got to put in the Personal Identification Number; right?

A Correct.

Q Okay. Now, let's look at an area where an OCC might want to operate, and let's say that there are five end offices and four of them are part of your 69 percent, and that that area was better than average, it had 80 percent. So four of the five offices could be served by B Direct. The fifth office had to be served by the B Tandem?

A Um-hum.

Q For MCI to advertise to its customers and inform its customers, it would have to put out two messages in the same metropolitan area; would it not?

A It would have to target its marketing to some extent. I don't know that it would necessarily have to put out two messages.

Q Well, it's kind of hard to get the people in the West End of Richmond not to read the News Leader?

A Um-hum.

Q And so to that extent, they would have to give two messages if they wanted to advertise in the newspaper; wouldn't they?

A Perhaps.

Q Perhaps? They would. I mean if you're

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2 on one side of the street and you're B Direct, and I'm  
3 across the street, and I'm a B Tandem, they've got to  
4 talk to me about buying one of those machines you've  
5 got there, and they've got to talk to me about dialing  
6 a PIN. They don't have to talk to you about that; do they?

7 A Well, you know, I think you're trying  
8 to exaggerate the difference. First of all, in the,  
9 in the Feature Group B Direct or Tandem, MCI would have  
10 the same phone number, 950-(0/1)XXX. That would be the  
11 same for all customers. Some customers would dial a  
12 PIN; for them, that wouldn't change. They always dial  
13 the PIN from their home. They know and understand that.  
14 You know, what you're really talking about is trying to  
15 provide for an evolution in your network from one form  
16 of interconnection to a superior form of interconnection.  
17 It's really no different than having Custom Calling  
18 features available today through C&P. Custom Calling  
19 features are available on one side of the street and not  
20 on the other side of the street. You know, the tele-  
21 communications network has evolved from operator handling  
22 all calls to dialed local calls to dialed international  
23 calls, and the whole range. It's gone through different  
24 numbering plans. It's introduced area codes; area codes  
25 have been split. Credit cards have been provided.

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2 Telephone consumers are pretty sharp, and they have  
3 adjusted well to these changes in the past. They're  
4 conditioned to it. And I don't see that there's any  
5 real disadvantage in trying to market a service that  
6 is Feature Group B. Because for that particular customer,  
7 his method of operations stays consistent. He's either  
8 on this side of the street or he's on that side of the  
9 street.

10 Q Um-hum. Okay. But we would have to  
11 get the message to the fellow on each side of the street  
12 and it would be a little bit of a different message?

13 A Well, I think, in fact, you would,  
14 when the customer were to call your contact sales  
15 office, you would, in fact, explain the service  
16 arrangement to him at that time.

17 Q I'm talking about --

18 MS. McCAREY: Judge, we've been going  
19 on with this line of questioning for some  
20 time now, and it seems to me that Mr. Moore  
21 is assuming a fact not in evidence, and that is  
22 that MCI would do a dual advertising. There's  
23 no evidence in this case that MCI has or will  
24 do dual advertising at any point in Virginia,  
25 or, in fact, elsewhere.

COMMISSIONER SHANNON: Well, I think we'll go ahead and let Mr. Moore explore this. I think he has a right to probe into it.

BY MR. MOORE: (Continuing)

Q Mr. Schell, let me ask you if you will agree that it is less than optimum to be able to have to deliver two kinds of messages? It's less than perfect?

A It's not perfect.

Q Okay.

COMMISSIONER SHANNON: Well, don't you have that situation true everywhere, Mr. Schell? Some people have ESS, some have available cross-bar switching. So the services in any given area are never identical, even with the OCCs or with the local companies?

THE WITNESS: That's the point, Your Honor, that I was making earlier, is that, you know, there have been changes introduced in the telecommunications network over the years: dialing changes, area code changes, Custom Calling features. They are never available ubiquitously at one time.

COMMISSIONER SHANNON: Well, what you're saying is that in the telecommunications

industry, technology changes so fast, it's impossible just to make a blanket change at one time that would cover everybody?

THE WITNESS: Absolutely. It's going to have to be phased in, and the point that MCI is making right now in terms of using Feature Group B versus Feature Group B Tandem, you know, direct versus tandem arrangement, it's analgous to the phase-in of equal access, too. You know, they're going to have to target equal access customers in their advertising, and they're going to have to target non-equal access customers in their targeting. . And that's just part of the ball game of introducing technological changes.

BY MR. MOORE: (Continuing)

Q Right now, whether you're in Monterrey, Virginia, in Highland County, or you're in Richmond, Virginia, if I'm using AT&T, it's like Cliff Robertson said, all I've got to do is dial 1 and the number; isn't that right?

A Unless you want to use your credit card.

Q Well, if I want to dial, I can just dial direct?

A Um-hum.

Q And that is not true and cannot be true under Feature Group A or either of the Feature Group B's for the OCCs?

A Not until equal access is available.

Q Right.

COMMISSIONER BRADSHAW: Do you know any OCC that wants to go to Monterrey, Mr. Moore?

MR. MOORE: I think when Feature Group D becomes available in Monterrey, I think my client will take it. I might add, Judge, that I don't think AT&T really has any problem going to Monterrey, because the system that AT&T is connected up to into Highland County I believe is owned by the telephone company there. I'm not sure of the name, but I think it's --

CHAIRMAN HARWOOD: Highland Telephone Company.

MR. MOORE: Highland. That's right. Highland Telephone Company. And they own the



facilities to get over to Staunton. So AT&T can serve, serve that without having to worry about building towers and that type of thing. And, as you know, if you've been to Highland County, building towers is not easy over there.

BY MR. MOORE: (Continuing)

Q Are all of the end offices set up in Roanoke, Virginia to take B Direct?

A I don't have the specific data by LATA. I can tell you --

Q I'm not talking about the LATA. I'm talking about Roanoke, Virginia, the -- that metropolitan area.

A I don't know one way or the other.

Q What about Arlington County?

A I don't know in the counties specifically. May I tell you what I do know? It would save you time. I do know they can offer it to 95 of 198 end offices, and those 95 offices serve 69 percent of their customer lines.

Q Okay. Okay. So you don't know about any specific metropolitan area, whether it would be a hundred percent in that area or not? Like Richmond.

Is this the back-up book?

A Yes, it is. I frankly don't think it's with me, but I'm -- no, I did not put it in. I just don't have it by city.

Q Okay. Now, in your testimony and again this morning, you were, in essence, I think it's fair to say -- I don't want to mischaracterize your testimony -- giving advice to the OCCs about how good Feature Group B Direct and Feature Group B Tandem, how good those things are; were you not?

A I was stating facts.

Q But has any terrestrial-based OCC opted for Feature Group B Tandem?

A Yes, sir, your company.

Q I see. Where is that? For credit card calls?

A Credit card calling. Also --

Q What about for regular dialing?

A It's my understanding from testimony submitted by GTE-Sprint's witness, G. Jay Nelson, in New Jersey, in a proceeding that I was involved in, that Sprint has begun ordering the Feature Group B Tandem form of interconnection.

Q Okay. What about Feature Group B Direct?

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2 A To my knowledge, the OCCs have not  
3 purchased that in Virginia.

4 COMMISSIONER SHANNON: Would Feature  
5 Group B Tandem be superior to Feature Group  
6 B Direct?

7 THE WITNESS: The other way around,  
8 sir. Feature Group B Direct would be superior.

9 COMMISSIONER SHANNON: Superior to  
10 Tandem?

11 THE WITNESS: Yes.

12 BY MR. MOORE: (Continuing)

13 Q Feature Group B Direct is the only  
14 one that will give you Automatic Number Identification  
15 and serve all the rotary dials; right?

16 A That's correct.

17 Q Okay. And has any OCC -- you say  
18 none in Virginia have chosen it; correct?

19 A Correct, to my knowledge.

20 Q What about elsewhere in the country?

21 A Well, I can only speak for the states  
22 that I have studied and have been a witness in, and in those  
23 states, New Jersey, Pennsylvania, et cetera, to my  
24 knowledge, the OCCs have not bought the ENFIA B  
25 or Feature Group B Direct arrangement.

Q And you're around a lot, and not in just those states; aren't you? Well, you read your publications and that type of thing; don't you?

A Yes.

Q Have you heard of anybody ordering a B Direct?

A I don't know. No, I don't think so.

Q Okay.

CHAIRMAN HARWOOD: Mr. Moore, I don't mean to interrupt you, but so the record will be complete: Mountain Grove-Williamsville Telephone Company and Mutual Telephone of Highland, Incorporated, are the two companies that serve Highland County.

MR. MOORE: I thought it was Mountain Grove, but I was afraid when you said Highland, I just thought -- I was going to say Mountain Grove, but --

CHAIRMAN HARWOOD: Mountain Grove-Williamsville, for your interest, has merged with Deerfield recently, formed even a larger company.

MR. MOORE: All right.

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2 (Laughter)

3 BY MR. MOORE: (Continuing)

4 Q Now, Mr. Schell, when these feature  
5 groups became available in February of 1982, isn't it  
6 true that C&P could not have installed those in the  
7 immediate future, within the next maybe three or four  
8 months? By June of 1982, we could not have been at  
9 Feature Group B Direct or Tandem in Virginia?

10 A I don't think that's correct, no.

11 Q You think we could?

12 A I think, you know, again, if you posit  
13 a hypothetical and say all of the carriers came in,  
14 and all of them wanted overnight to change all their  
15 connections to Feature Group B Direct or Tandem, could  
16 C&P have done it? And, obviously, the answer to that  
17 is no, that would have involved having a bunch of unused  
18 capacity around that they would be able to use to fill  
19 this need. But if you say had the OCCs come in and  
20 sat down with C&P in February, and said look, I'm  
21 interested in this service offering, and I would like  
22 to do some joint planning with you, and I would like to  
23 use it, then I think C&P could have readily made that  
24 available in either form to you during that year,  
25 and probably within, you know, reasonable, a reasonable

period of time. But, again, you have to plan it. You just can't come in and say I want it.

Q You're not aware of any other situations where that has been a problem? Would it surprise you if a witness testified that they tried to get Feature Group B and that it took a very long time?

A They would have to be specific with where they ordered it. Okay. For example, if they came in and said, hypothetically, I tried to get Feature Group B in Pennsylvania and it took a long time, I would not accept that. If they came in and said I tried to get Feature Group B Tandem last -- late last year, and I was delayed a month or so, because of the worldwide shortage of components in making T-carrier -- not the feature group arrangements, but facilities, I'd say that wouldn't surprise me a month or two, because there was a worldwide shortage of chips. So, you know, you're going to have to be specific if you want to know if I'd be surprised.

Q All right. Now, I take it it's your testimony that as far as the TOUCH-TONE aspect is concerned, that can be solved for most of the phones by the -- by Feature Group B Direct for 69 percent, with Feature Group B Direct?

A Well, yes, you get access to rotary

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2 phones with Feature Group B Direct.

3 Q Okay. Do you know what the  
4 percentage of rotary phones in Virginia is?

5 A Yes, sir.

6 Q What is that?

7 A Forty percent of C&P's customers  
8 have rotary phones.

9 Q Okay.

10 A I do not know specifically what the  
11 mixture is on the independent companies, but I do know  
12 that the independent companies serve about 20 percent  
13 of the lines in the State, so, you know -- but I -- and  
14 I do know it's available. Almost all of the exchanges  
15 in the independent companies have it available, but I  
16 simply don't know.

17 Q Have what available?

18 A TOUCH-TONE.

19 Q TOUCH-TONE.

20 A In other words, I only know of six  
21 exchanges where it's not available in the independents.

22 COMMISSIONER SHANNON: Well, the  
23 40 percent of C&P's customers that have  
24 TOUCH-TONE, that's by personal choice; isn't  
25 it?

THE WITNESS: Sixty percent have  
TOUCH-TONE.

COMMISSIONER SHANNON: Forty percent  
have the rotary. That's by personal choice?

THE WITNESS: That's my point, Your  
Honor, it's by personal choice, because it's  
available to a hundred percent of their  
customers in Virginia.

COMMISSIONER SHANNON: They just  
don't want to pay the higher rate?

THE WITNESS: Apparently.

BY MR. MOORE: (Continuing)

Q Tell me about -- do you know where those  
40 percent are concentrated? Are they concentrated in areas  
where Feature Group B Direct would be available, or not?

A In other words, could I overlay these  
two for you?

Q Yes.

A I can't accurately overlay the two.  
I didn't bring the data that way.

Q And the percentage of those that do  
not have TOUCH-TONE phones, they have the rotary-dial  
phones, is 40 percent, and the percentage of lines that  
cannot be served by B Direct is 31 percent; right?



2 A Yes.

3 Q Okay. So we could have up to 30 percent,  
4 let's say, depending on the arrangement of lines that could  
5 not be served by B Direct and are rotary-dial phones?

6 A I think you will find that --

7 Q You can explain it, but I'd like you to --  
8 I posited that, I tried to posit it fairly carefully.

9 A Okay, well -- let me repeat it back  
10 before I answer so I know what I think I'm answering.

11 Q All right.

12 A You said if we take the two  
13 distributions --

14 Q Um-hum.

15 A -- those that have rotary and those  
16 that could not be served by Feature Group B Direct,  
17 it is possible that 30 percent of the customers would be  
18 involved?

19 Q We're dealing with C&P now.

20 A In C&P.

21 Q Right. Thirty percent of those, of  
22 C&P's customers, would have rotary phones and not have  
23 Feature Group B Direct, couldn't have.

24 A No, that's not what I was going to do.  
25 That's why I re-asked the question.

Q That's my question. That's not possible?

A Statistically, it's not possible.

Q To find that out, we have to do this overlay we discussed; wouldn't we?

A That plus using some common sense.

Q Okay. We'd have to do both of those?

A Well, what I'm saying is --

Q Would we have to do both? We'd have to do the study?

A If you have -- if you have both distributions accurately, then you can simply apply it.

Q Okay.

A But without that, I think you can form an informed judgment on what that distribution might look like.

Q Tell me what data we'd have to have to make that informed judgment?

A We would have to know, which I do have, the 95 locations, the cities, the switches that C&P offers Feature Group B Direct to. We would have to have the TOUCH-TONE usage, say, by location, by city, and then we could make that comparison of those two.

Q Okay. And have you done that, sir?

A No, that's what I said earlier.

Q Okay, thank you. Now, on Page 12 of your testimony, you say that, under C&P's access charges, carriers don't incur any up-front charges to switch from Feature Group B to D when it becomes available; right?

A Well, I was referring to up-front or one-time tariff charges.

Q Right, tariff charges. But, now, for an OCC to change from an A to a B to a D would require hardware and software changes; would it not?

A The primary change that an OCC has in going from either, going from Feature Group A to Feature Group B or D is a change from a line-side form of interconnection with line-side signaling, ground start, customer interface signaling arrangements of that type, to trunk-type signaling arrangements, and that cost of that changeover is essentially the same whether you move from Feature Group A to B or to D. You'll make the same changes to go either place.

COMMISSIONER SHANNON: Just for the uninitiated, non-technical mind: Would you explain the difference between line-side and trunk-side signaling?

THE WITNESS: Yes, sir. A line-side

interconnection arrangement is typified by communications with the switch that normally an end-user would have. Like when you use your telephone, you pick it up; it senses that; it gives you a dial tone; you dial numbers, and it interprets those numbers. And that's typically what we're referring to in a line-side connection. In the line-side connection arrangement that MCI uses, it's pretty much the way a PBX would interface the network. In other words, they're situated a lot like a PBX in terms of signaling arrangement.

Trunk-type signaling arrangements between switching systems themselves in the network use multi-frequency addressing to transmit the digits. You may have heard on a call, dit-dit-dit-dit-dit-dit; well, that's the numbers being sent forward. They use two separate leads for signaling answer supervision, disconnect supervision, and things like that. Those are referenced to as E&M signaling leads. The E lead stands for ear; you hear on that. You transmit

on the M lead, which is the mouth. So what we're saying is that for a trunk-side interconnection, those are machines talking to each other in machine language. Line-side connections are generally people talking to machines.

COMMISSIONER SHANNON: I see.

BY MR. MOORE: (Continuing)

Q I would like you to turn to Page 7 of your Attachment A, if you will, please, sir. It's the one, it's what you call Table 3, Access Service Interconnection Arrangements, Comparison of Features.

A Page 7?

Q Page 7, Attachment A.

A Yes, sir.

Q And that compares Feature Group A, both Feature Group B's, and Feature Group D to Feature Group C, which is AT&T's arrangement?

A Yes, sir.

Q And the features, if you will, that you list on the left-hand side are the features that you think are important to be considered by this Commission?

A I think they summarize the features

that are available in those feature groups, yes.

Q All right. And the only two -- I guess it's actually three columns that are equal, if you will, are the equal access with AT&T. Feature Group A is not equal to Feature Group C; Feature Group B is not equal to Feature Group C. And the one that comes the closest is Feature Group D; isn't that correct?

A Well, I think if you'll look at the table very carefully, you'll find that the difference between Feature Group B Direct and Feature Group C is in the number of digits that are dialed by the customer to access MCI's service. And if you look at Feature Group D, and you look at the 15 digits that will be required there under equal access, as opposed, you know, if you're not the carrier that's predesignated by the customer to carry his calls, that customer will then under equal access, dial five extra digits, and that's not a lot different than the seven extra digits they're dialing today under Feature Group B.

Q Now, the customer won't have an option to dial 1 under Feature Group B Direct though; will he?

A No, he doesn't have that option.

Q Right. And what about single dial

tone? You've got that "no," and over here on Feature Group C, you've got it "yes." That's a difference; isn't it?

A Single dial tone and the number of digits required are the same thing.

Q All right. You just listed them separately?

A Just listed them separately for clarity.

Q All right. If they were the same thing, why did you need to list them separately?

A I may not do it in the future.

Q I see. All right. In order for the number of digits required to be reduced to ten, you have to go to Feature Group D; right?

A That's correct. And you have to be the pre-selected carrier.

Q I understand that. But for it to be possible, you have to go to Feature Group D?

A Yes, sir.

Q Right. Okay. If equality is -- of interconnection access is the issue, and you want to get as close as we can on equality, then Feature Group D is the answer; is it not?

2                   A           Feature Group D, the basic difference  
3 between Feature Group D and Feature Group B Direct  
4 arrangement is that Feature Group D provides dialing  
5 equality. And that is what C&P is spending all the  
6 money to modify its end offices, is to provide dialing  
7 equality and pre-selection capabilities. That is the  
8 difference that I see between Feature Group B Direct  
9 and Feature Group D.

10                  Q           Okay. Would you answer my question  
11 please, sir, which was about Feature Group D and  
12 Feature Group C, the AT&T part?

13                  A           I'm sorry. Can you --

14                  Q           Yes, I'll try again. If I'm looking at  
15 equality with AT&T, okay?

16                  A           Yes, sir..

17                  Q           Looking at Feature Group A, Feature  
18 Group B and Feature Group D, the one that is the most  
19 equal, if you will, is Feature Group D; is it not?

20                  A           My answer was that Feature Group B  
21 Direct and Feature Group D, both compare about equally  
22 to Feature Group C.

23                  Q           They're the same?

24                  A           Except for the dialing disparity.

25                  Q           Okay. Does it surprise you that no



OCC anywhere in the whole country that you know of has selected Feature Group B Direct, if it's so equal?

A No, sir, it does not, and I'll tell you why.

Q Okay.

A In my opinion, the OCCs initially were interested most in the least expensive form of interconnection, so that they could expand their networks. They could garner a customer base. They were not initially interested in all the features and the quality of the AT&T connection. In my opinion, they were positioned as a different, you know, as a different --

Q Different level of competition, if you will?

A No, not a different level of competition, but they were simply quite satisfied with the Feature Group A form of interconnection. Even though they lobbied hard for improved forms of interconnection, when they were available, in essence, they didn't buy them. In my opinion, the thing that has changed for the OCCs is the FCC ruling in Docket 78-72, that said we're concerned about transmission quality in the long-distance network. And we are going to require all carriers to pay for Feature Group D equal access when it's available,

whether you use it or not. And in my opinion, that's when the OCCs became interested in Feature Group B.

COMMISSIONER BRADSHAW: Could an OCC have selected Feature Group B Direct and compete price-wise with AT&T?

THE WITNESS: Today?

COMMISSIONER BRADSHAW: Today.

THE WITNESS: Certainly.

COMMISSIONER BRADSHAW: Be lower?

THE WITNESS: Certainly.

COMMISSIONER SHANNON: Once the pre-selection was made, for example in Norfolk, come September 1, 1984, would you still have the disparity in the number of digits that are dialed?

THE WITNESS: When -- I'm sorry, sir?

COMMISSIONER SHANNON: When pre-selection has been made, if an individual selects MCI, as I understand it what they will do, they will still dial 1 and will get the MCI network?

THE WITNESS: That's correct.

COMMISSIONER SHANNON: But will they still have to dial more digits than they dial

if they're using the AT&T network?

THE WITNESS: If a customer pre-selects this traffic carrier as MCI, and dials a seven or a ten-digit number, that call automatically goes to MCI. If he now wishes to use AT&T's service, he has to dial 10288 plus the ten-digit number to use AT&T. In other words, for any carrier that is not pre-selected, the customers will have to use their carrier access code to reach them. That's the five-digit number.

COMMISSIONER SHANNON: But if a pre-selection is made, do you dial the exact number of digits whether you use MCI or AT&T?

THE WITNESS: Yes, sir.

COMMISSIONER SHANNON: I see. So pre-selection is truly equal in all respects?

THE WITNESS: Yes, sir.

COMMISSIONER SHANNON: Okay, thank you.

BY MR. MOORE: (Continuing)

Q If it is truly equal in all respects --

COMMISSIONER SHANNON: I mean there are no differences in anything that you have to do.

Q (Continuing) In anything that you have to do. That is not the case with Feature Group B Direct; isn't that correct?

A Feature Group B Direct requires, requires that you dial the number of the OCC, 950(1/0)XXX, or whatever.

Q So you've got to dial at least 17 numbers; right?

A There is a seven-digit dialing difference. That's the only difference.

Q Right. All right, sir.

COMMISSIONER SHANNON: Well, each of the OCCs has its own code number assigned, like 950, or 857, or -- is that correct?

THE WITNESS: Yes. Well, the 950 form is an exchange access. It's an exchange code dedicated to OCC usage.

COMMISSIONER SHANNON: I see.

THE WITNESS: And then within the 950, the last four digits would identify the specific carrier.

COMMISSIONER SHANNON: I see.

COMMISSIONER BRADSHAW: Let me ask a question about this exhibit before we leave it.

I'm interested in the last "no" under Feature Group C. If the Legislature in Virginia a year from now lifts intraLATA access, I mean, lets the calling, would that take a great deal of configuration for AT&T to comply? It doesn't look like they -- it looks like they have it on every group but AT&T. I don't understand that.

THE WITNESS: That's correct. Under the Feature Group C form of interconnection, C&P of Virginia automatically routes all calls within the LATA within its network. It takes them and routes them in its network. It doesn't present them to AT&T at all. And that's the way the end offices are programmed to operate. When Feature Group D becomes available in an office, Feature Group C is no longer available by definition, so where equal access is available in 1986, AT&T would have the same opportunity as any of the OCCs to carry intraLATA traffic. But in all of those offices where it is not available, AT&T would not have that opportunity. Where it is still connected

with Feature Group C, it would not be able to carry intraLATA calls, even though it were authorized.

COMMISSIONER BRADSHAW: Are you telling me that the OCCs, when that law takes effect, unless it's modified, would have an advantage over AT&T?

THE WITNESS: In my opinion, yes.

COMMISSIONER BRADSHAW: You're going to win somewhere, Mr. Moore.

BY MR. MOORE: (Continuing)

Q Mr. Schell, were you here Friday morning?

A Yes, sir.

Q Did you hear Mr. Brundage talk about this reimbursing them for their toll, lost toll revenues?

A During the time between now and the middle of '86?

Q Well, we hope --

A Eighteen months from now.

Q Well, we hope it's January 1, '86; and did you hear that?

A Yes, sir.

Q Your inability to provide intraLATA

2 traffic, at least between now and 1986, is not a  
3 disadvantage; is it?

4 A Well, right now, it's not an advantage  
5 or a disadvantage. It's moot.

6 Q Well, it's a disadvantage to MCI  
7 if they have to reimburse these lost toll revenues;  
8 isn't it?

9 A Well, that's if you choose not to  
10 block those calls.

11 Q I see. All right. Now, Mr. Schell,  
12 you thought that the shift to Feature Group D was  
13 important enough to give the Commission a summary schedule  
14 of when it will be available on the C&P system; did you  
15 not?

16 A Yes, sir..

17 Q And I believe you indicated that in  
18 1985, approximately 64.1 percent would be converted to  
19 equal access if the present schedule holds?

20 A That is correct.

21 Q All right.

22 COMMISSIONER SHANNON: What were those  
23 figures, Mr. Moore?

24 MR. MOORE: 64.1 percent would be  
25 converted to equal access by September 1, 1985,

of C&P's customers; right?

THE WITNESS: That's correct.

BY MR. MOORE: (Continuing)

Q All right.

A And 90.6 percent by September 1st,  
1986.

Q Let's deal with them year by year.

A All right.

Q There are approximately 2.1 million  
customers by 1985 on the C&P system?

A I suppose.

Q All right. And would you take, subject  
to check, that that means approximately 750,000 customers  
will not have been, or lines will not have been  
converted to equal access by September 1, 1985, on the  
C&P system?

A Thirty-five percent of two million  
would not be converted.

Q Right. All right. And when we  
get out to 1986, we're dealing with about ten percent  
of a little over two million, so we've got about 200,000  
would not have been converted by 1986 on the C&P system?

A Correct.

Q Is that right?



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A (Nodding head in the affirmative.)

COMMISSIONER SHANNON: Well, wouldn't some of those customers be out in the mountainous, less populated areas, where probably nobody wants to serve, other than those that are already there?

THE WITNESS: Some of them certainly are, yes.

BY MR. MOORE: (Continuing)

Q That's really a guess, isn't it, Mr. Schell?

A No. Well, you know, if you're going to ask me to name specific cities and locations --

Q I was.

A You were. And it has to do with the type of switching that historically has been used in Virginia, and, you know, if you look at where the steppers and the No. 1 cross-bars are, those are the ones that C&P of Virginia is not going to convert. They're the ones that are ultimately going to be served by a remote host module off an electronic switch, and those do tend to be more rural than metropolitan.

Q Okay. All right, when you get out to 1988, you'd still have a hundred thousand C&P lines that

would not have been converted; isn't that correct?

A Five percent, yes, sir.

Q Of two million?

A Yes, sir.

Q Be a hundred thousand. All right.

Now, Mr. Schell, in your testimony, you finally mentioned them this morning, but in your testimony, you didn't discuss the other telephone companies in Virginia when you talked about the availability of Feature Group B Direct, and the availability of equal access; did you?

A Only -- not in specificity, but the independent companies in Virginia are concurring carriers to the National Exchange Carriers Association tariff, and that tariff includes Feature Group A-B form of interconnection. And currently, MCI does use in Virginia interconnections in at least one independent area.

Q How many other telephone companies are there in Virginia, other than C&P?

A Approximately 21.

Q Okay. I think your 21 includes them.

A Perhaps.

Q Do you know how many lines it provides?

A 581,582.

Q You are saying between 581 and between

582?

A No, sir, 581,582, according to the Virginia Exchange Carriers Association.

COMMISSIONER SHANNON: When you say 21 companies, you mean 21 regulated companies? That's not including any OCCs and others that are operating?

THE WITNESS: That's correct, sir.

BY MR. MOORE: (Continuing)

Q Local exchange companies?

A Yes.

Q Got to tie it down.

A Yes, sir.

Q Thank you. Now, you would agree that if one were going to consider equal access, Feature Group B Direct, and this type of thing, that we ought to look at the availability of equal access, and the availability of Feature Group B Direct for those customers served in Virginia also; shouldn't we?

A Absolutely. And I'm prepared to discuss that if you'd like to.

Q Okay, let's try that. Isn't it true, Mr. Schell, that none of the other 20 companies, non-C&P, have an obligation under Judge Greene's Order to convert

to equal access?

A What you said is true, but I believe the GTE Phone Company has an obligation under its own Modified Final Judgment, under its own --

Q Their agreement to assent to that?

A Right.

Q Let me hand you a letter about that, now that you raised that, and ask you -- let me give this to the bailiff --

COMMISSIONER BRADSHAW: Mr. Moore, how about telling me where we're headed here, because I think we'll all stipulate to the MFJ adjustment didn't run to those companies. And we're just concerned in this hearing -- I think that's beyond the scope. But tell me where you're headed.

MR. MOORE: Where I'm headed, Your Honor, is Mr. Schell has provided data in his testimony about equal access and the availability of Feature Group B Direct for only C&P.

COMMISSIONER BRADSHAW: That's the only legal obligation, as I understand it, under the MFJ.

MR. MOORE: Well, I think the important factor is though, if the Commission is going to consider, and obviously AT&T thinks it's important, about the availability of Feature Group D, then it seems to me that the Commission needs to know whether Feature Group D is on a voluntary or whatever basis going to be available to any of these other 582,000 lines, or whether Feature Group B Direct can be made available. He's given you the data for C&P. He said that 69 percent of those lines could be converted, but that's only -- I think it's about 78 percent of the lines in the State. If the Commission is going to look at this and consider deregulating AT&T for the entire State, it seems to me we need to look at the availability of those features on these independent companies also.

COMMISSIONER BRADSHAW: All right, well, go ahead. I just wanted to make sure we, you and I both, knew what the legal obligation was.

BY MR. MOORE: (Continuing).

Q Mr. Schell, is this letter in your

back-up book?

A Did I have this letter?

Q Yes.

A No, sir.

Q Would you take just a moment and  
review it.

A All right.

MR. MOORE: Your Honor, while he is  
reading this, I would like to have this marked  
as an exhibit. I do not have a sponsor. It  
came from the records of the Commission.  
It's a letter addressed to Mr. Wickham. I'd  
like to have it placed in the record. I  
don't think it's -- I can't rely on Mr. Schell.  
It is a Commission record. I'd like to have it,  
have it placed.

COMMISSIONER SHANNON: Well, we can  
take official notice of our own records. This,  
of course, is a letter written by Mr. C. E. Brown,  
Vice-President of Network Engineering. Of course,  
Mr. Brown is not here, and that does cause me  
some concern because --

MR. MOORE: Judge, I'm trying to get  
just this kind of information in my request

to the Commission to require reports from the various independent telephone companies, and --

COMMISSIONER SHANNON: Well, you know our rule is letters written by third parties that are not present are passed to the file, but we don't accept them as evidence.

MR. MOORE: I understand that, Judge, and that's why I'm asking that it be placed in the record, and I'd like to have it marked refused, if I may, and I'll say to the Commission that this is part of the problem that we have, and the reason we asked the Commission to direct the local telephone companies to tell us this very kind of information. And that Order -- that motion has not yet been acted on.

COMMISSIONER SHANNON: Well, of course, you're dealing with an independent company, GTE, and we're dealing here with a question of the OCCs and AT&T.

MR. MOORE: Yes, sir, I believe here we're just dealing with AT&T, and if equal access is the issue, or one of the issues, and this Feature Group B that we've

1 heard described in glowing terms this morning,  
2 this Feature Group B Direct, then it is  
3 important for this Commission, I submit,  
4 to know whether Feature Group D is going to  
5 be available to these other 582,000 lines,  
6 because that's part of the Commonwealth, too,  
7 and whether Feature Group B Direct is available  
8 in 69 percent or 29 percent or 99 percent.

9  
10 COMMISSIONER SHANNON: All right,  
11 you go ahead and ask your questions on this,  
12 and we will identify this as Exhibit -- I  
13 believe the next number is No. 4.

14 MR. MOORE: 3, I think.

15 COMMISSIONER SHANNON: That's right,  
16 3. This will be Exhibit 3. 4 hasn't been  
17 presented yet.

18 And while I'm thinking about it,  
19 I don't believe you passed up copies of the --  
20 of Mr. Schell's testimony to the bailiff  
21 here.

22 MR. MORRISSEY: I believe it was  
23 included in the package I gave him on Friday,  
24 and also Mr. Wilcox's.

25 THE BAILIFF: Okay, thank you.



COMMISSIONER SHANNON: All right.

BY MR. MOORE: (Continuing)

Q Mr. Schell, on Page 2 of the letter to Mr. Wickham, which has been identified as Exhibit 3, the writer on behalf of General Telephone says, I believe, "As you are aware, the offices we serve in Virginia are all relatively small, less than 10,000 in size. The proposed Consent Decree does not address these size offices on the basis that economics and necessity will be the driving factors regarding equal access. End of quote.

Did I quote that correctly?

A Well, your quote is correct. The problem I'm having with this document is the attachments are not on it.

Q Yes, sir.

A For me to properly evaluate this document and comment, I need to see the four attachments.

Q All right, tell me, is General Telephone, are their systems going to be converted to equal access in Virginia?

A Is General Telephone?

Q Yes.

A Well, it says right here that they have

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2 a requirement to have two-thirds of their lines converted by  
3 9-1-87, and we have put together a conversion schedule that  
4 was shown in the attachments which isn't here.

5 Q What does it say on Page 2, sir?

6 A What part of Page 2?

7 Q The first paragraph. "The proposed Consent  
8 Decree does not address these size offices," and they --

9 A And it says down at the bottom that,  
10 "All of our efforts described above were to convince the  
11 Commission that our modernization program was not too  
12 aggressive as the Staff has suggested." That's the last  
13 sentence. And it goes on to talk about Attachment 4. And  
14 all I'm saying is I don't know from this document how  
15 quickly GTE-Sprint proposes to convert -- I mean GTE.  
16 I'm sorry.

17 Q Do you know from any other document  
18 not only how quickly, but whether they have current plans  
19 to convert?

20 A I do not have specific information on  
21 General, other than that they have developed and are  
22 developing plans to do that. And I would be very interested  
23 in this attachment.

24 Q I'm talking about Virginia now,  
25 Mr. Schell. That's the -- these gentlemen have to decide

on Virginia.

A No, I'm saying that, first of all, it's my understanding that Central Telephone of Virginia, the Continental Telephone, and the General Telephone of the Southeast were all in the process of developing plans for the provision of equal access. Now, I don't know in which offices and on which schedule, but it's encouraging that, in fact, they were looking at doing that. I know, for example, that Burke's Garden Telephone Company plans to have it available in their exchange when requested, that Clifton Forge-Waynesboro Telephone Company in Covington and Waynesboro, Covington will have it October of '84; Waynesboro, May of '85. Shenandoah Telephone Company, when requested by an OCC. United Mountain Telephone Company, their plans are in '86. So, you know, I don't --

Q Tell me about Burke's Garden. How many lines in Burke's Garden?

A I suspect -- well, just a moment.

Q A hundred and five; isn't it?

A Just one moment.

You're right; 105.

Q So we've still got a substantial percentage, and do you have precise schedules in Virginia

2 for those others? Can you give us some percentages?  
3 Let's take the 582,000.

4 A Right.

5 Q All right. What percentage of that --  
6 let me -- detail it by company, if you will -- will be  
7 available in September, 1985, equal access?

8 A It's going to take a few minutes  
9 to go through this, but I will be happy to. Just a  
10 moment.

11 Q Do you have information from all  
12 20 companies?

13 A First of all, Marlinton will be  
14 available in 1985.

15 Q Wait a minute? How many lines?

16 A I'm sorry. Skip that.

17 CHAIRMAN HARWOOD: That's West  
18 Virginia, Pocohontas County.

19 Q I was going to ask you where that  
20 was.

21 A Scratch that. I'm looking at the  
22 wrong sheet.

23 Q We've got Burke's Garden at 105.

24 A Clifton Forge-Waynesboro, they have  
25 about 18,000 -- let's see, they have 23,500 lines. And

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2 Covington will be available October, 1984.

3 Q Is that Clifton Forge-Covington or  
4 is that --

5 A Well, let's see, it says here  
6 Covington will be available October of '84; Waynesboro  
7 in May of '85.

8 Q And the sum of those is what, 23,500?

9 A Those two are probably 7800.

10 Q Seventy-eight hundred?

11 A I suspect. I can't tell from this.  
12 Somewhere around seven-8,000.

13 Q Okay.

14 A Shenandoah Telephone Company says  
15 that they can provide it when requested by an OCC.

16 Q Do they say who's going to pay for  
17 it then?

18 A All they say is that they  
19 can provide it when requested. That's about 13,900 lines.

20 Q Okay. Did you survey these companies?

21 A We have a survey, yes.

22 Q Okay. All right. Tell me about --

23 A Now, let's see, we have already  
24 talked about C&P of Virginia. By September 1st of '84,  
25 they will have, let's see -- I can get that number.

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Q Any more by September 1 of 1985?

A By September 1 of 1985, C&P will have 64 percent of its --

Q Non-C&P. I want to combine the C&P and the other 20's -- other 20.

A Those are the ones that I know that will be available by '85 or now available.

Q All right, sir. And --

A Let me go back. I do not yet have details of Central Telephone or Contel, or, as I said, GTE.

Q So you don't know whether they're going to start next week or 1988?

A No, but I could have seen it on these attachments, but those three companies serve approximately 446,000 of those 581,582 lines. So those are the three companies.

Q You don't have any information on 480-some thousand of those 500 --

A I do not have the detailed plans. I know that they are planning their equal access arrangements, but I don't have by year by end office.

Q So if we go on what we know, what you've got, and what you testified to here, we've got

about, oh, 540,000 that you can't say will be -- well, you can't say one way or the other -- but will be converted by September of 1985; right?

A Well, I'm simply saying that at this point in time, I have not reviewed Centel, Contel's, or General's plans, and they're the three major ones that serve the lion's share of those customers. So I can't draw a conclusion as to what percentage will be in '85 on those.

Q You just can't do it?

A I can't do it.

Q Okay. The one thing you have talked about, would you take subject to check, adds up to about 43,000 lines?

A Well, that's not quite all, but that's a portion of the difference between the 445 and the 581, yes.

Q But the only ones you can talk about and have been able to tell this Commission about total about 43,000 lines; right?

A Yes, subject to check.

Q And you just don't know about the others? You know there are some plans, but you don't know what they are or when they would be implemented; right?

1                   A           That's correct.

2                   Q           All right. Got any idea how long,  
3                   how far out those other plans go?

4                   A           You mean of the --

5                   Q           Contel and these others.

6                   A           No, as I say, I'd very much like to  
7                   have the attachments 1 through 4 of this document which  
8                   detail those plans.

9                   COMMISSIONER BRADSHAW: Don't we also  
10                  need the plans, Mr. Moore, of the OCCs, when they're  
11                  going out there? I mean, what difference  
12                  does it make if you're not going out there?

13                  MR. MOORE: Well, the critical  
14                  difference, Judge, if the Commission is  
15                  going to look at the possibility of  
16                  competition, then that equal access isn't  
17                  going to be available, that possibility isn't  
18                  going to be there until there's equal access.  
19                  And so I think that it's very important,  
20                  and obviously, AT&T thinks it's important.  
21                  They gave you a detailed list here of  
22                  availability dates for equal access. And  
23                  it is important.

24                  COMMISSIONER BRADSHAW: I mean,  
25



they gave it to us just for C&P territory.

MR. MOORE: That's right.

COMMISSIONER BRADSHAW: You're the one that's introduced Burke's Garden.

MR. MOORE: That is correct, because the rest of the State, I mean, is just as much entitled to the protection of this Commission or competition as are C&P customers. And I think the Commission needs to look at the, at the whole State, at all of the lines, not just two million of the 2.6 million, but all 2.6 million, and I think that we have found this morning that we really can't do that. We've got to sort of here, say, here's a survey here on 43,000 lines, and I'm not questioning whether that's right or wrong. I'm not challenging that. Right now I don't have any way to do it. But we do only know about 43,000 of these.

CHAIRMAN HARWOOD: Mr. Moore, in the OCC's certification process, would it be fair for the Commission then, when equal access is available in both C&P and

non-C&P independent companies' territories to require all the carriers, upon request, to serve those or lose their certifications?

MR. MOORE: To require them to do what, sir?

CHAIRMAN HARWOOD: When they have equal access, then, the independent companies, when that time comes, then would it be fair to require an OCC to serve, let's say, Burke's Garden, using that simply as an example, or lose their certification? In other words, if they're willing to then provide equal access for us to require -- if somebody, a customer in Burke's Garden says I want to subscribe to X OCC, to say you've got to go there or lose your certificate?

MR. MOORE: Well, I had thought the Commission had made the decision in promulgating its rules that it was going to let the economics of the situation control, so that if one customer wanted it in Burke's Garden, the, you know, there would be no obligation to provide it. The critical

point, however, is that if it's available there, then at least the customer can ask for it and there will be the possibility of competition. And right now, we submit, there's not the possibility of realistic competition without equal access.

COMMISSIONER SHANNON: Are you saying the only measure of competition is equal access?

MR. MOORE: I'm saying that's a measure, sir. I'm saying that I believe the evidence will show, given an opportunity to fully present things, that the only way there can be viable competition is where there is equal access. I'm not saying it's a measure of it, but I'm saying -- and then it's not going to be automatic. And then it's not going to be sufficient to allow the complete deregulation in that area of AT&T. But that is where --

COMMISSIONER SHANNON: Well, Mr. Moore, we don't have equal access in Virginia right now, and yet there is a large share of the market that is being

taken over by the OCCs.

MR. MOORE: Well, sir, I would respectfully disagree with the description of it as large.

COMMISSIONER SHANNON: Well, a share of the market.

MR. MOORE: A share of the market, okay.

COMMISSIONER SHANNON: Whether it's 10 percent or 15 percent or 14 percent. But they're taking -- they're making inroads, they're getting into the market without any semblance of equal access right at the present time.

MR. MOORE: They are getting a part of the market, Your Honor, but the point is, and the point that I hope will be made later on today, is that when you have an entity like AT&T with its market power and its market dominance, that, sure, there are going to be some that can come in, but AT&T is the one that, in Monterrey, in Highland County, or in Gretna, Virginia, can raise its rates, and they're not going

1 to get that competition, especially if there  
2 is no equal access. And that simply is our  
3 point. Sure, they can come in and have  
4 come in. But I think as we presented in  
5 our memorandum argument, that MCI, which is  
6 the largest on the interstate revenue -- it's  
7 got 2-1/2 percent. I think AT&T was around  
8 90 percent. So, you know, you can say it's  
9 a part, but I don't think it's appropriate to,  
10 or I don't think it's accurate, Judge, to  
11 say it's a large part.  
12

13 COMMISSIONER SHANNON: Well, it's  
14 your position then, Mr. Moore, that this  
15 Commission should continue to regulate AT&T  
16 until such time as there is equal access  
17 not only on the part of the Bell System,  
18 former Bell System companies, but all the  
19 independents and everybody in Virginia?

20 MR. MOORE: It is our position,  
21 Your Honor, that AT&T needs to be regulated  
22 until there is almost complete equal access.  
23 There may be, you know, a few phones, but I  
24 think we're talking in the 90-plus percent.  
25 Then there is the possibility of realistic

2 competition. Then the Commission could begin  
3 a phased deregulation -- not a wholesale,  
4 abrupt deregulation as has been proposed  
5 by AT&T. That is our position. And we will  
6 present a witness that will articulate that  
7 far better than I can.

8 MS. MCCAREY: Judge Shannon, I'd  
9 just like to make a short comment here,  
10 since Mr. Moore has made a rather lengthy  
11 one. I think what we're talking about here  
12 is something that is, although MCI would seem  
13 to have us believe not in its control, very  
14 much in its control. We're talking about  
15 some small offices down the line, that may  
16 not have equal access either in independent  
17 areas or possibly in a C&P area, and if  
18 you'll look at the second paragraph on  
19 Page 2 of GTE's letter to Mr. Wickham,  
20 which Mr. Moore did not point out, he says,  
21 "Obviously in an office or area, if it's of a  
22 size which effectively precludes the  
23 probability of an interexchange carrier  
24 other than AT&T wanting equal access, then  
25 the cost of providing the capability becomes

1 an unnecessary burden." What MCI would have  
2 us do is insist that everyone make equal  
3 access available without any request. Even  
4 under the exceptions in the Modification of  
5 Final Judgment, there is an opportunity for  
6 OCCs to request equal access to an end  
7 office which may not have been scheduled  
8 for equal access. If they want to serve  
9 those areas, then that will be considered,  
10 but it seems inappropriate to insist that  
11 these small telephone companies, or C&P  
12 for that matter, convert small offices to  
13 equal access merely on the hope that someday  
14 some OCC will decide to serve that area.

15  
16 COMMISSIONER SHANNON: Let me ask  
17 you this: Does the Modified, Ms. McCarey,  
18 does the Modified Judgment, that does not  
19 affect or reach to independent companies  
20 in any way, does it?

21 MS. McCAREY: No, sir, it does  
22 not.

23 COMMISSIONER SHANNON: They weren't  
24 even parties to the proceeding.

25 MS. McCAREY: They were not.

1  
2 MR. MOORE: Judge, I want to take  
3 just one moment. I don't think that that's  
4 the right points that have been raised here  
5 by AT&T. Really, the right question isn't  
6 whether we ask for it, or how it's provided,  
7 or anything else, but, in fact, there can't  
8 be equal competition without this equal  
9 access. It doesn't matter whose fault it  
10 is or why it is or anything else. The  
11 statute says until there is sufficient  
12 competition to eliminate the need for  
13 regulation, the regulation should --

14 COMMISSIONER SHANNON: Let me ask  
15 you this, Mr. Moore: Would the OCCs -- and I  
16 guess you can't speak for all of them -- we'll  
17 say, would MCI say we will not solicit or  
18 offer any service in the intrastate service  
19 in Virginia until such time as equal access  
20 is provided, and then we can start out fresh  
21 and put everybody on the same basis?

22 MR. MOORE: No, sir, I do not think  
23 that. I would say, and I haven't even looked  
24 at Mr. Marmon, but I know the answer to  
25 that is no, because you're not going to



start up --

COMMISSIONER SHANNON: I said intrastate Virginia, because I know they're providing interstate; I know they're providing intrastate, even though they're not certificated to do it.

MR. MOORE: Some of that is incidental, and it is happening.

(Laughter)

And I thought maybe I was going to get to stand up this time without having that said, but --

COMMISSIONER SHANNON: Well, you're saying the obvious; we all know it. But I think this: I think this Commission, we want to be absolutely fair. Now, fairness is a two-way street. You've got to look at what MCI has done and what they're doing, what they propose to do. You've got to look at AT&T, on the other hand. And that's all we're concerned with here.

MR. MOORE: What I'm saying on that specific point of holding back, holding back MCI is AT&T is offering intrastate service

right now, and they're going to continue to do it. And it is going to take some considerable time for MCI and the others to begin to be able to realistically compete with AT&T. And that's because they've been doing this for a hundred years, Judge. They have been there for a hundred years. There are, you know, market preference, brand preference, all of these things. Your Honor, it's not something that you can say it's fair to hold MCI back and then lift them both at the same time and expect realistic competition. Our position is that's not going to happen, and it can't happen. So I would have to say, no, sir, we would not propose that MCI be held back.

COMMISSIONER SHANNON: All right.

Well, let's take a ten-minute recess.

(Recess)

THE BAILIFF: The Commission resumes its session.

COMMISSIONER SHANNON: How much more examination are you going to have of this witness, Mr. Moore?

MR. MOORE: I have no further questions of this witness.

COMMISSIONER SHANNON: All right.  
Mr. Magee, are you or Ms. Dupont --

MR. MAGEE: Yes, Judge Shannon,  
I have several.

COMMISSIONER SHANNON: All right,  
go right ahead.

CROSS-EXAMINATION

BY MR. MAGEE:

Q Mr. Schell, it's a pleasure to see  
you again.

A Good morning, sir.

COMMISSIONER BRADSHAW: Your questions  
should be few because he said your company is  
buying the good stuff.

THE WITNESS: I'm sorry?

COMMISSIONER BRADSHAW: I said your  
questions should be few because he said your  
company is buying the best equipment.

MR. MAGEE: That and that Mr. Moore  
took most of the questions.

(Laughter)

COMMISSIONER BRADSHAW: Okay.

Q Mr. Schell, I'd like to just briefly, if I may, during the course of your discussion this morning with Mr. Moore, you mentioned the ENFIA 2 negotiations, and I surmise from that that you are generally familiar with what transpired at those negotiations?

A Only in a very broad way, not a detailed way. In a broad way.

Q But I believe you stated -- and correct me if I'm not characterizing it fairly, because I'm interested in expediting this, too -- that those discussions involved requests made by OCCs, MCI and Sprint, for forms of interconnection that were better than, say, the ENFIA A, or now Feature Group A type of connection?

A Yes.

Q Were you a participant in those discussions by any chance, Mr. Schell?

A No, sir.

Q So the knowledge that you have is basically knowledge that was acquired from where?

A From documents I have read, from discussions I've had with people who were knowledgeable about those proceedings.

Q And based on the review of those documents, and those discussions that you've held with the people who participated in the proceedings, isn't it true that the OCCs requested a form of access which would have allowed them to have a trunk connection with a Class 4 switch?

A The OCCs had frequently asked --

Q I'm asking now in the context of the ENFIA 2 negotiations. I didn't mean to interrupt you.

A Yes, that's probably true.

Q And that type of connection, is it fair to say, is like the Feature Group C connection that AT&T has?

A I think you're drawing -- the Class 4 switch is AT&T's switch.

Q But at the time of the negotiations, it belonged to the Bell System; did it not?

A At the time of the negotiations, it was a Class 4 switch, yes.

Q A Bell System --

A A toll switch.

Q A Bell System toll switch, Class 4?

A Yes.

Q Now, under the Plan of Reorganization,

1 Schell - Cross

2 many of those Class 4 switches, I think, quoting your  
3 remarks, have gone to AT&T; is that not true?

4 A Um-hum.

5 Actually, most of them stayed with the  
6 Bell Companies.

7 Q What is the situation in Virginia,  
8 sir?

9 A We have four switches today: Roanoke,  
10 Arlington, Richmond, and Norfolk. Prior to divestiture,  
11 we interfaced, or we had -- prior to divestiture, there  
12 were 14 Class 4 toll switches in Virginia. Ten of them  
13 were retained by the C&P of Virginia, and four were  
14 actually assigned to AT&T Communications.

15 Q To your knowledge, the ten that  
16 C&P has retained, do they -- or will they continue to  
17 serve a Class 4 toll switch capacity, or have they been  
18 modified for something else?

19 A Some of those will, in fact, be  
20 upgraded to the equal access switches.

21 Q The equal access tandem specifically?

22 A Yes.

23 Q Okay, do you know how many of the ten  
24 will be upgraded, or is that listing in your testimony,  
25 are those all upgraded switches?

A No, not all of them are upgraded.  
I mean, not all of them were Class 4 switches prior to divestiture.

Q All right. Turning your attention back just a minute to Feature --

COMMISSIONER SHANNON: Just for the record, explain what a Class 4 switch is.

THE WITNESS: Okay. In the switching hierarchy that was used prior to divestiture, the customers' serving office was referred to as an end office or a Class 5 switch. The next switch in the heirarchy was referred to a toll center. It was where you aggregated the traffic from the end offices, and, you know, transmitted it across the State, or to the West Coast, or whatever. Those were referred to as Class 4 or toll switches. The next thing up was called a primary, and a number of Class 4 switches homed on a primary switch, which was a No. 3. And a number of primaries homed on a sectional switch, which would be a Class 2. And the top switch was a Class 1 regional switching system, of which there is about

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2 seven in the country. So it was simply a  
3 tree.

4 COMMISSIONER SHANNON: It's a  
5 hierarchy really, or a tree?

6 THE WITNESS: Yes, sir, exactly.

7 BY MR. MAGEE: (Continuing)

8 Q All right, Mr. Schell, AT&T's Feature  
9 Group C access, such as exists in Virginia, is it fair  
10 to characterize it as primarily consisting of direct  
11 connections to Class 5 offices direct trunks?

12 A Primarily, yes.

13 Q Now, I want to go through another  
14 form of chronological discussion with you just briefly.  
15 Your testimony states on Page 6 that in February, 1982,  
16 ENFIA B and C, now denominated as Feature Group B Direct  
17 and Feature Group B Tandem, were first tariffed; is that  
18 not correct?

19 A That is correct.

20 Q Do you recall what happened on  
21 January 8th, 1982, in that same year, approximately one  
22 month before?

23 Well, let me put it to you this  
24 way: Was that not the announcement date of the  
25 Modification of Final Judgment or the proposed Consent Decree



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2 between the U.S. and AT&T?

3 A Yes, that's correct.

4 Q And at that time, is it fair to say  
5 that discussions of what equal access would be began to  
6 come to the forefront, in front of Judge Greene and  
7 elsewhere?

8 A You mean for the very first time  
9 ever?

10 Q No, no, just in the context of that  
11 case.

12 A Yes, yes.

13 Q What was going on in the industry  
14 in general.

15 A Yes.

16 Q Okay. All right. So we have  
17 ENFIA B and C announced approximately a month after  
18 the proposed Final Consent Decree between the U.S. and  
19 AT&T was offered?

20 A I think though that you're leaving  
21 the impression that those events were somehow related.

22 Q Oh, no, no, I don't intend to.

23 A As I mentioned earlier, in the cross  
24 from Mr. Moore, I believe, those discussions had taken  
25 place over a couple of years, that tariff was being

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2 prepared and --

3 Q Now, when the tariff was filed  
4 in February, was there a form of access that allowed  
5 for an OCC to get a connection at the Class 4 office, Bell  
6 System Class 4 toll switch?

7 A Well, I would put it the other way.  
8 I don't think it was precluded.

9 Q Was it offered is my question, under  
10 the BSOC-9, Bell System Operating Companies Tariff, FCC-9?

11 A I have the tariff in my briefcase.  
12 I would have to look to answer you specifically. I  
13 don't know for sure.

14 Q All right, I would appreciate it  
15 if you would do that after we are finished, so we could  
16 put something on the record subsequently. I don't want  
17 to delay this proceeding right at the moment. I think  
18 that you'll find that the answer is no.

19 All right. Now, turning your  
20 attention again, you have some knowledge, I guess,  
21 of the circumstances that led to the filing of BSOC-9  
22 which had ENFIA B and C tariff.

23 A (Nodding in the affirmative.)

24 Q Isn't it true that there was a  
25 dispute as to the manner in which charges were going to be

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2 calculated under that filing, specifically whether the  
3 minutes that were going to be used were the holding  
4 time versus conversation minutes?

5 A That's absolutely correct.

6 Q When was that resolved approximately,  
7 to the best of your recollection?

8 A It was -- it was resolved in probably  
9 by August of 1982, but I feel that it's important that  
10 the Commission understand what the basis for that  
11 disagreement on minutes of use was.

12 Q I agree.

13 A The OCCs, under ENFIA A, reported  
14 their billed minutes of use, and that was the basis  
15 for developing the tariff rate. When the Bell System  
16 Operating Companies FCC Tariff No. 9 was proposed,  
17 and first filed, it was going to be based on holding  
18 time minutes, which is the entire time the connection  
19 is up, not simply that portion of it which is billed  
20 to the customer. One of the things that happened  
21 under the ENFIA A tariff arrangement is that there  
22 were a number of adjustments and deductions that could  
23 be taken by the OCCs from gross minutes of use to  
24 arrive at billed minutes of use. For example, the  
25 predecessor corporation, the GTE-Sprint SPCC, from its

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2 gross minutes of use, deducted 25 percent of its usage  
3 as intra-company and testing, and reduced their usage  
4 in getting from gross minutes of use to billed minutes  
5 of use, 25 percent of them were automatically deducted.  
6 Now, what the ENFIA, what the Bell System Operating  
7 Companies ENFIA B and C tariff, BSOC-9 sought to  
8 correct was that adjustment. In other words, that they  
9 would pay for all of the time that was used without  
10 adjustments. As a matter of fact, the current -- the  
11 current arrangement for AT&T Feature Group C is that  
12 AT&T pays for all minutes of use in the network,  
13 including don't answers, busies, everything.

14 COMMISSIONER BRADSHAW: Isn't that  
15 because AT&T had the technology and these  
16 other OCCs could not tell if the phone  
17 call went through or not? They didn't have  
18 the technology to record that call? Wasn't  
19 that the basis for that?

20 THE WITNESS: Well, they, with the  
21 Feature Group A form of interconnection, they  
22 did not receive answer supervision. They had  
23 to make approximations of when that call  
24 was answered.

25 COMMISSIONER BRADSHAW: Right.

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2 THE WITNESS: But in that regard,  
3 SBS never had to make approximations because  
4 they bought Feature Group B Tandem, ENFIA C,  
5 and they had answer supervision. And they  
6 never had the billing problems.

7 BY MR. MAGEE: (Continuing)

8 Q Mr. Schell, may I ask the question:  
9 How was the minutes of use issue resolved, BSOC-9?

10 A The minutes of use in BSOC-9 were  
11 cross-referenced to the minutes of use in BSOC-8.

12 Q Which was the ENFIA A tariff; correct?

13 A Correct, which continued to let the  
14 OCCs deduct a sizeable portion of their holding time in  
15 arriving at billed minutes of use.

16 Q On Pages 7 and 9 of your testimony,  
17 you have reference to something that I'd like to discuss  
18 with you briefly. Specifically on Page 7, the first full  
19 paragraph, the sentence that follows Footnote 4, "Thus  
20 an OCC need only obtain access at the tandem offices  
21 to be connected to all customer lines within the LATA."  
22 And the context of that, sir, I believe, is that Feature  
23 Group B or ENFIA C Tandem; is that correct?

24 A Yes.

25 Q Is that true for ENFIA C under  
BSOC-9? Is that the case under ENFIA C, as it was

1 Schell - Cross

2 tariffed?

3 A As ENFIA C was tariffed, the OCCs  
4 could have gotten a penetration of 94 percent of the  
5 customer lines, not a hundred percent. The reason for  
6 that is that on the ENFIA C tandems, only those end  
7 offices which were in the toll-free calling area were  
8 included. So that it wouldn't have been a hundred  
9 percent of ENFIA C, but 94 percent.

10 Q Let me ask you, is this your  
11 understanding of C&P's intent with regard to Feature  
12 Group B Tandem: Will C&P be provided access to all  
13 end offices within LATAs in the State of Virginia  
14 through that tandem?

15 A Through the access service tariff,  
16 you may obtain access to all end offices within the  
17 LATA through the LATA access tandem. Each of the  
18 LATAs has an access tandem today, and C&P's intent,  
19 as they indicated in their filing of June 22nd, with the  
20 Department of Justice, is to transition from those  
21 arrangements where they will not be equal access tandems.  
22 Some of them will, for example: Richmond, Fredericksburg,  
23 Lynchburg, will be equal access tandems. They'll stay  
24 in place. Those that aren't, they will transition those  
25 services to the equal access tandem.

1 Schell - Cross

2 Q I want you to help me out for a  
3 minute. I'm a little muddled here on something you  
4 said. The Feature Group B Tandems to which you refer  
5 in your comments on Page 7, is this the situation currently  
6 or in the future?

7 A Today -- well, we're in transition.

8 Q I'm going to give you all the chance,  
9 John, you want to elaborate. I just want to know if  
10 it is the situation today.

11 A The sentence that follows the footnote  
12 after 4 says, "Thus an OCC need only obtain access at the  
13 tandem offices to be connected to all customer lines  
14 within the LATA." That is my understanding of the  
15 situation that exists today in Virginia under C&P's  
16 access service tariff.

17 Q Under Feature Group B Tandem, not the  
18 equal access tandem?

19 A Under the Feature Group B Tandem,  
20 which in some cases are the equal access tandems, but  
21 not in all cases.

22 COMMISSIONER BRADSHAW: And that  
23 carries the same rate minutes of use as the  
24 Feature Group A; is that what you said  
25 earlier?

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THE WITNESS: In the discussion we had earlier, if C&P cannot measure, for example, in the Feature Group A interconnection, then they would use a surrogate minutes of use, for example, 9,000 minutes of interstate jurisdiction. I believe that they would be, they would be able to measure all minutes of use in the ENFIA C tandem, so they would not use a surrogate on the Feature Group B Tandem.

COMMISSIONER BRADSHAW: But currently isn't the tariff the same?

THE WITNESS: The tariff today is based in Virginia on busy hour/minutes of capacity.

COMMISSIONER BRADSHAW: All right. Okay.

THE WITNESS: Busy hour/minutes of use.

BY MR. MAGEE: (Continuing)

Q Mr. Schell, if I could follow up on one thing that you mentioned. I believe you indicated that certain of these Feature Group B Tandems to which you are referring will not be the Feature Group D equal access tandem and some will?



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2 A Yes.

3 Q All right. In those instances  
4 where the current Feature Group B Tandems are not planned  
5 as the equal access tandem for that particular LATA,  
6 there will be line reconfigurations and movement required,  
7 will there not, at the time they cut over?

8 A That is my understanding of what  
9 C&P proposes to do.

10 Q All right. Now --

11 A I might add, Mr. Magee, though,  
12 I don't think that would affect the OCCs. In other  
13 words, you would have a number of lines going to this  
14 tandem, and if I understood correctly what Bell Atlantic  
15 told Judge Greene, they would transition from that switch  
16 to the equal access switch, so, in effect, swing your  
17 lines over to another switch. It doesn't necessarily  
18 impact you.

19 COMMISSIONER BRADSHAW: If it doesn't  
20 impact it, why would they want to make that  
21 investment?

22 THE WITNESS: Why would C&P want to  
23 do it?

24 COMMISSIONER BRADSHAW: Yes.

25 THE WITNESS: So that they have a

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single network. In other words, the equal access tandems are going to be the ultimate point at which, when direct trunks to an end office are not economical for the carriers, they would put them through a tandem and aggregate at the tandem a number of end offices so that it would provide equal access to those end offices via tandem, as opposed to individual trunk groups to each offices, and clearly would be prudent from an engineering perspective to have all of your interexchange carrier services in the same place, as opposed to sprinkled around in different areas, different machines, because the trunk group efficiencies accrue to C&P's benefit. It's to their financial advantage to do that from the efficiency standpoint.

BY MR. MAGEE: (Continuing)

Q Mr. Schell, on Page 11 of your testimony, you talk about, I believe, the availability of ENFIA B and C arrangements, circa 1982, and mention that they are currently available under Feature Group B at the same tariff rate as Feature Group A. Back in

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2 your charts where you compare Feature Groups A, B and  
3 C, on Attachment A, Page 4, there is a Page 3 that  
4 indicates, and it's cited in a footnote to your testimony  
5 that under BSOC-9 there were charges for some of the  
6 things that are now listed as options for which there  
7 is no charge under the access tariff; correct?

8 A Yes, those differences are displayed  
9 on Page 3 of Attachment A.

10 Q Okay. Now, in your opening statement  
11 today, you alluded to contentions that have been advanced  
12 by some of the participants in this proceeding before the  
13 FCC, and indeed in front of other state commissions  
14 that you and I have been in before, for example, and  
15 that concerns the traffic inefficiencies that might be  
16 associated with the use of Feature Group B Direct,  
17 for example.

18 A Um-hum.

19 Q My question is: As a general matter  
20 of traffic engineering, a larger trunk group is, in fact,  
21 more efficient than a smaller, just as a general  
22 proposition; is that not correct?

23 A That is correct, yes.

24 Q And isn't it also true that for  
25 economic efficiency, either, say, for example, the

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2 carrier, an interexchange carrier, regardless of who it is;  
3 MCI, AT&T Communications of Virginia, Sprint, that there  
4 has to be a certain volume of traffic coming out of an  
5 end office before direct connection is economically  
6 justified, and that might vary from carrier to carrier?

7 A Well, there has to be a certain  
8 volume, but AT&T Communications today has direct  
9 connections to offices with very few circuits in the  
10 trunk group, very few.

11 Q Sure, of course. You were connected  
12 in during that period of time when you helped engineer  
13 the system, were you not, to those end offices, in that  
14 manner?

15 A Yeah, but what I'm saying is that  
16 it does not take a large number of circuits to justify  
17 that trunk. It can be justified by a very small number  
18 of circuits in many cases.

19 Q Would you turn to Page 18 of your  
20 testimony, please. At the bottom, you have a statement  
21 to the effect that "Access tandem switching systems will  
22 provide points within each LATA for concentrating and  
23 distributing the traffic of interexchange carriers, including  
24 AT&T Communications, when direct connections to each end  
25 office in the LATA from each interexchange carrier's

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2 Point of Presence (POP) would not be justified economically."

3 And that's basically a statement of this engineering  
4 principle we were talking about in terms of the volumes  
5 of traffic that would justify a direct connection?

6 A Yes.

7 Q With Feature Group B Direct, what is  
8 the geographic scope of coverage for the OCC who subscribes  
9 to it hypothetically? Let's say I go over to talk to  
10 Mr. Brundage's client and tell him I want Feature Group  
11 B Direct trunks to a number of end offices that C&P serves  
12 throughout the State. What sort of coverage do I get  
13 with each one of those trunks for toll origination purposes  
14 by subscribers?

15 A You get all of the subscribers that are  
16 on the end office you have chosen to serve.

17 Q Particularly on --

18 A Particularly on the one --

19 Q The one end office?

20 A That is correct.

21 Q And with the ENFIA A configuration,  
22 what is the scope of my coverage or access?

23 A Well --

24 Q Is it not the toll-free area?

25 A Generally, the toll-free area, yes.

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2 Q Mr. Schell, would you flip back  
3 please to Page 12 of your testimony. Earlier this  
4 morning, if I understood correctly when you and Mr. Moore  
5 were talking about the changes that might be made, say,  
6 for example, if a carrier had a Feature Group B Direct  
7 connection and then subscribed to Feature Group D as it  
8 became available, and I'm curious, wouldn't there also  
9 have to be a fairly significant software change, say,  
10 for example, in the case of the OCC who did that because  
11 of the way ANI is passed?

12 A Well, I think what you're referring to  
13 is -- are you referring to going from B to D, once you're  
14 at B?

15 Q Let me try it a little differently,  
16 John.

17 A Okay.

18 Q With Feature Group B Direct, isn't  
19 ANI, Automatic Number Identification we've been talking  
20 about today, passed after the ten digits are dialed,  
21 the toll digits?

22 A That's correct, yes.

23 Q And if I understand Technical  
24 Reference 61-201, ANI will be passed before the ten

25

1 Schell - Cross

2 digits, with Feature Group D; is that correct?

3 A That's correct, and it has the same  
4 impact on AT&T.

5 Q So there are going to be software  
6 changes nevertheless that would have to be made to go  
7 from B Direct if it were used by an OCC to Feature  
8 Group D, to accommodate ANI change?

9 A If you had converted from -- if you  
10 convert from A to B, and then go B to D, you're talking  
11 about a software change to go from B to D, yes.

12 Q Now, I want to chat briefly with you  
13 about what I'm going to dub the "Schell Plan." I don't  
14 mean that derogatorily.

15 COMMISSIONER BRADSHAW: Before you  
16 get into the Schell Plan -- I thought you were  
17 going to say shell game.

18 MR. MAGEE: No, I wouldn't say that.

19 COMMISSIONER BRADSHAW: These changes  
20 that you have to make, your testimony reads  
21 that it would be no up-front charges to the  
22 carriers?

23 THE WITNESS: What I was referring  
24 to is --

25 COMMISSIONER BRADSHAW: Does that mean

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2 it would go to the local exchange customers?

3 THE WITNESS: No. Let me clarify  
4 that, Judge. The -- what I was referring to  
5 in my testimony is, under C&P's intrastate  
6 access service tariff, there is a non-recurring  
7 charge to change feature groups. In other  
8 words, to go from Feature Group A to B,  
9 or A to D, there is a charge. There is no  
10 charge though to change from Feature Group B  
11 or C to D in the same office, so that an  
12 OCC who converted from Feature Group A to  
13 Feature Group B would pay a non-recurring  
14 charge, but then would not pay when he  
15 converted from B to D. So he's going to  
16 pay that charge once anyway. The question  
17 is whether he pays it converting to B or  
18 converting to D.

19 COMMISSIONER BRADSHAW: It just  
20 doesn't cost the phone company any more  
21 money to do that?

22 THE WITNESS: From B to D?

23 COMMISSIONER BRADSHAW: Yeah.

24 THE WITNESS: No, because the  
25 Feature Group B form of interconnection is a



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trunk-side form of interconnection, trunk-side signaling protocols and signaling interfaces are all set up in B, and they're analogous to D. What Mr. Magee was referring to earlier is that under the equal access signaling addressing, the Automatic Number Identification of the calling number will be sent to the carrier first, followed by the called number. It's done just the opposite today. And one of the reasons is so the carrier can scan and be sure, for whatever purposes, that's his customer, and it speeds up processing because as soon as the customer goes off hook, that information is immediately sent to the carrier. Once he dials the carrier access code, the machine says this call is going to Sprint, and it sends the calling number before the customer ever finishes dialing. So it saves the switching systems time, makes them more efficient.

And Mr. Magee was pointing out that if they want the B at this time, they would have ANI first, called number second, and they would have to change to ANI first --

1 Schell - Cross

2 I'm sorry -- they would have, under Feature  
3 Group B, called number first, ANI second,  
4 and under D, as in David, the other way around,  
5 that he would have to recognize that change  
6 in the switching system. And I agreed with  
7 him. And I said so would AT&T Communications,  
8 ours will change, too. But that change for  
9 C&P comes with the equal access generic.  
10 That's when they make the change.

11 COMMISSIONER SHANNON: But it's the  
12 same problem for AT&T as it would be for any  
13 other?

14 THE WITNESS: Yes, we have to change  
15 our software at the same time.

16 COMMISSIONER SHANNON: Yes.

17 BY MR. MAGEE: (Continuing)

18 Q Mr. Schell, in your answer a moment  
19 ago to Judge Bradshaw, you mentioned about there not being  
20 a charge for conversion between B Direct to Feature Group  
21 D when it was in the same office.

22 A Um-hum.

23 Q What about B Direct where you have a  
24 situation where Feature Group D is being implemented in  
25 another office; there would be a charge under -- charge

1 Schell - Cross  
2 in Virginia for that?

3 A Well, if you took a Feature Group B  
4 Direct connection, those offices will all become equal  
5 access under C&P's schedule. There are none of them  
6 that won't be.

7 Q No, I don't think we're --

8 A Maybe I'm not saying it clearly.

9 Q Let me try it again.

10 A Okay.

11 Q All right. If I ordered Feature  
12 Group B Direct and I get a trunk such as we've described,  
13 when that end office, Feature Group -- excuse me -- when  
14 the end office to which I have the trunk converts to  
15 equal access, if it's the same office, I don't have a  
16 problem?

17 A Correct.

18 Q But if it isn't, then, in other words,  
19 what I'm getting at is reconfiguration in terms of the --

20 A Well, I guess what I was thinking  
21 in my testimony, Mr. Magee, was there's two ways you  
22 could approach it. You know, I would sit down with  
23 C&P and say, look, I'm interested in this, and I'd like  
24 to get to the end offices that are going to become  
25 Feature Group D end offices, and I'll take Feature Group

1 Schell - Cross

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2 B now, and I'll pay my charge now, and I'll begin my  
3 transition. That's one approach. Another approach is  
4 to say that I would like to use the tandem form of  
5 interconnection to reach these end offices when they  
6 become equal access, so that I would like to have Feature  
7 Group B Tandem in your designated equal access tandems,  
8 and then as equal access becomes available, each end  
9 office that homes on that tandem, I can use it. And what  
10 I'm saying is there wouldn't be a charge then either  
11 because you would have your interconnection in an equal  
12 access tandem. The only time you would pay is if you  
13 have a Feature Group A interconnection today in  
14 say, a community dial office here in Richmond, and  
15 you convert in that same dial office to Feature Group D,  
16 then you pay the A to D. But, you know, if you work it  
17 the other way, and say I want to go to these offices  
18 that are going to be designated Feature Group D, and I'm  
19 going to access them through the tandem, I think that by  
20 working with C&P you can avoid any additional conversion  
21 charge, you know, a second non-recurring charge.

22 COMMISSIONER BRADSHAW: You know,  
23 I'm having a hard time here with this engineering  
24 talk, but it sounds to me like you can get the  
25 good models, so to speak, for the same price

1 Schell - Cross

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2 that you can a lesser product. Is that a--

3 THE WITNESS: That true under the  
4 tariff, yes.

5 COMMISSIONER BRADSHAW: If that's  
6 true, then why, just tell me why wouldn't  
7 they all opt for the good one, or the best, if  
8 it's the same price?

9 THE WITNESS: Well, I think, from  
10 what I have heard in other jurisdictions,  
11 they, in fact, as Mr. Magee referred to  
12 the Schell Plan, I think they, in fact,  
13 will begin to transition their networks to  
14 Feature Group B Tandem to position themselves  
15 for equal access.

16 COMMISSIONER SHANNON: Well, I  
17 would say it takes some engineering on the  
18 part of the OCCs to accept this. This is the  
19 difference. Apparently they were geared up  
20 or engineered up for Feature Group A, and it  
21 would be some cost to convert?

22 THE WITNESS: That's correct?

23 COMMISSIONER SHANNON: Is that right?

24 THE WITNESS: They will incur that  
25 cost to convert either to B or D.

1 Schell - Cross

2 COMMISSIONER BRADSHAW: That is my  
3 point. Why wouldn't they go on and convert  
4 to D, which is the better, if I hear your  
5 testimony correct?

6 THE WITNESS: You mean why would  
7 they not wait until D came along?

8 COMMISSIONER BRADSHAW: What I'm  
9 saying is, if they have an option now, why  
10 wouldn't they go for D?

11 THE WITNESS: Oh, they always  
12 would.

13 COMMISSIONER BRADSHAW: They always  
14 would.

15 THE WITNESS: Sure.

16 COMMISSIONER BRADSHAW: Well, that's  
17 what I was having a problem with. It sounded  
18 like some of them were opting for B from  
19 the testimony.

20 THE WITNESS: My testimony basically  
21 states that for an OCC that's going to use  
22 Feature Group D ultimately, they want to use  
23 equal access, it is very logical and prudent  
24 from an engineering standpoint for them to  
25 begin to transition their network through

1 Schell - Cross

2 Feature -- from A to Feature Group B, to  
3 position themselves to slide into equal  
4 access. And they can then get all the  
5 advantages of the Feature Group B form of  
6 interconnection even before equal access  
7 is available. Then it comes along and  
8 eliminates the dialing disparity, and then  
9 everything is equal.

10 COMMISSIONER SHANNON: On the OCC  
11 side, would there be a large amount of  
12 engineering, engineering expense, costs  
13 to convert from Feature Group B to Feature  
14 Group D?

15 THE WITNESS: They, as Mr. Magee  
16 mentioned earlier, they would have software  
17 changes mainly in the signaling format,  
18 where the called number is first.

19 COMMISSIONER SHANNON: Automatic  
20 Number Identification?

21 THE WITNESS: The called number  
22 would be first under equal access.

23 COMMISSIONER BRADSHAW: Mr. Magee,  
24 do you understand?

25 MR. MAGEE: I do, Judge Bradshaw.

1 Schell - Cross

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2 COMMISSIONER BRADSHAW: My non-  
3 knowledge of engineering, can you ask him a  
4 question to clarify it more?

5 MR. MAGEE: I think we can do a  
6 couple of things that will hopefully clear  
7 this up a little bit.

8 COMMISSIONER BRADSHAW: Okay.

9 BY MR. MAGEE: (Continuing)

10 Q Let me direct you to my questions  
11 in connection with the plan that you described on Page 14.  
12 On Page 14, towards the top, when you're talking about  
13 Feature Group B Direct, you say that, "Because the trunks  
14 would be direct, the transmission quality would be  
15 fully equal to that afforded AT&T Communications."  
16 My question is: Isn't that going to be true only where  
17 you have Feature Group B Direct at both ends, the  
18 originating end and the terminating end?

19 A Well, I was speaking of this by end here.  
20 You know, each end.

21 Q Each end, origination and termination?

22 A I guess -- I don't disagree with what  
23 you said, but it's not different than I said in my  
24 testimony.

25 Q That's fine. I just wanted to make



1 Schell - Cross  
2 sure I understood.

3 A All right.

4 Q Now, with Feature Group B Direct,  
5 such as we've been talking about, the trunk, the single  
6 trunk that comes down to the end office, there is only  
7 coverage on the particular end office, we've established,  
8 correct, for origination purposes?

9 A Yes.

10 Q That end office also must be a  
11 stored program control switch end office; is that not  
12 correct? The 1 ESS or 1A ESS variety?

13 A Or DMS-10 or 5E or 2B or 2D.

14 Q DMS-10.

15 A A stored program control switch,  
16 yes.

17 Q With regard to this Feature Group B  
18 Tandem conversion plan that you have described also  
19 as the other portion. All right, the tandem is linked  
20 to subtending Class 5 offices. In other words, it's a  
21 bunch of local end offices home on this particular  
22 tandem.

23 A (Nodding in the affirmative.)

24 Q And that tandem, in some instances,  
25 will become the equal access tandem, such that

1 Schell - Cross

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2 Feature Group D will be available to subscribers at  
3 the lower Class 5 level; correct?

4 A Um-hum, yes.

5 Q But not in all?

6 A But not in all. But again, as my  
7 testimony states, Mr. Magee, C&P plans to ultimately  
8 provide only -- to provide the tandem arrangement only  
9 through equal access tandems. I mean, that's what  
10 they've indicated to Judge Greene, that that is their  
11 intent.

12 Q The Feature Group B Tandem arrangement,  
13 as opposed to Feature Group B Direct approach?

14 A Now, what I'm saying is, if we were to go  
15 in today and buy Feature Group B Tandem in all of the  
16 LATAs to connect to all of C&P's end offices, some of  
17 those particular switches will become the equal access  
18 Feature Group D Tandem, some won't. At some point in  
19 time, C&P has indicated that it plans to take those  
20 that aren't upgraded to equal access status, phase those  
21 out, and transfer those Feature Group B Tandem lines  
22 to an equal access tandem, so that it only has one  
23 network and not all these split networks and serving  
24 carriers.

25 COMMISSIONER SHANNON: Mr. Schell,

1 Schell - Cross

2 there is a question in my mind. When  
3 that ultimate day arrives that everybody  
4 has equal access, will Feature Group B still  
5 be available?

6 THE WITNESS: At this point in time,  
7 to my knowledge, C&P has not indicated any  
8 termination date for either Feature Group A  
9 or Feature Group B.

10 COMMISSIONER SHANNON: So they will  
11 remain available until such time as they  
12 become obsolete or phase out because of  
13 non-usage?

14 THE WITNESS: Exactly. And the Feature  
15 Group C arrangement that AT&T has does phase  
16 out as equal access becomes available.

17 COMMISSIONER SHANNON: Because I  
18 would think the OCCs wouldn't necessarily  
19 all want equal access. They may want some  
20 for competitive reasons, or they may want  
21 something that's a little less costly.  
22 Would that be a logical assumption? I mean,  
23 Feature Group B -- well, I don't know, as  
24 far as their cost is concerned, I suppose it  
25 really wouldn't make any difference whether it

1 Schell - Cross

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2 was Feature Group B or Feature Group D;  
3 would it?

4 THE WITNESS: Well, Feature Group --  
5 under equal access --

6 COMMISSIONER SHANNON: That's what  
7 I'm assuming.

8 THE WITNESS: Yeah, under equal  
9 access -- well, let me say this: There would  
10 be no difference once the premium phases out  
11 or the discount, however you want to state it,  
12 phases out. Unless C&P were to provide  
13 something else --

14 COMMISSIONER SHANNON: Something  
15 at a lower cost?

16 THE WITNESS: Exactly.

17 COMMISSIONER SHANNON: And the  
18 technology is there to do that, just keep it  
19 like it is, if they decide to give them  
20 an option as to whether they want to take  
21 equal access completely or have some part  
22 of their service still under Feature  
23 Group B?

24 THE WITNESS: Yeah, I would think  
25 if the OCCs desire to retain some of the

Schell - Cross

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interconnection arrangements they have today, and C&P saw a marketing opportunity there, they would certainly market to that opportunity.

BY MR. MAGEE: (Continuing)

Q Mr. Schell, let me just follow up on Judge Shannon's question on something you said earlier this morning. In an end office that converts to Feature Group B under the National Exchange Carriers Association tariff, the OCC uses ENFIA A line-side connection; what does the OCC pay?

A The same as equal access, Feature Group D.

Q So the rates will be the same for the inferior access, versus the better form of access, Feature Group D?

A In the Federal, that is correct.

Q Now, would you flip please to Attachment A, Page 7. I wanted to follow up on something that Judge Bradshaw mentioned earlier today. In your last column there under Feature Group C, your last line item, Intra-LATA Access, there's "No," for Feature Group C for AT&T. I have several questions for you.

First, does AT&T Communications of Virginia currently use any form of Feature Group A access

1 Schell - Cross

2 in the State of Virginia -- excuse me, in the Commonwealth?

3 A Only to the extent that it provides  
4 the open end of an FX arrangement.

5 Q But that's as a provider, correct,  
6 not as a user, in the sense that you would order it  
7 from the access tariff?

8 A Well --

9 Q All I want to know, Mr. Schell, is  
10 whether or not you order Feature Group A connections  
11 from C&P.

12 A Yes.

13 Q And use them in what way?

14 A As FX open ends.

15 COMMISSIONER SHANNON: Use them as  
16 what?

17 THE WITNESS: For our FX service.

18 FX service is provided through Feature Group

19 A interconnection.

20 BY MR. MAGEE: (Continuing)

21 Q But does that FX usage such as you  
22 use it in the Commonwealth today correspond in any way  
23 to the way, say, OCCs are making their toll services  
24 available?

25 A Yes.

1 Schell - Cross

2 Q In what way?

3 A The OCCs generally make their service  
4 available in specific cities through an FX arrangement.  
5 For example, let's say that Sprint serves Northern  
6 Virginia from its switch in Cooksville, Maryland, and in  
7 all probability it buys an interstate FX circuit to the city  
8 it wishes to serve.

9 Q From --

10 A Cooksville, Maryland, to the open end  
11 Northern Virginia.

12 Q And I would get that circuit from you,  
13 would I not? From AT&T Communications?

14 A You would get the interstate FX  
15 from AT&T, but you would get the Feature Group A  
16 appearance from C&P.

17 Q Okay. What about Feature Group B?  
18 Do you use Feature Group B Direct or Tandem in your  
19 intrastate toll in this state?

20 A To my knowledge, no.

21 Q Do you have any intent in the future  
22 to order Feature Group A or Feature Group B Direct or  
23 Tandem configurations in the State from C&P?

24 A It would depend on how they're  
25 priced.

1 Schell - Cross

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2 Q All right. Let me ask you another  
3 question: Assuming they were priced in a manner that you  
4 found acceptable, would you not use Feature Group A  
5 or Feature Group B Direct and Tandem in the event that  
6 intraLATA competition is authorized in the Commonwealth  
7 to provide access to your subscribers for that service,  
8 the same way that MCI or Sprint could?

9 A We could.

10 MR. MAGEE: I have nothing further.

11 COMMISSIONER SHANNON: Thank you,

12 Mr. Magee.

13 Any redirect, Ms. McCarey?

14 MS. MCCAREY: Just one.

15

16 REDIRECT EXAMINATION

17 BY MS. MCCAREY:

18 Q Since we have it sitting here on the  
19 table, and Mr. Schell has referenced what Mr. Moore calls  
20 the machine, I'd just like to have Mr. Schell describe  
21 for the record what the tone generator is like.

22 COMMISSIONER SHANNON: All right.

23 A All right. It's a -- it's a --  
24 simply a Touch-Tone pad with a transmitter and a couple  
25 of watch batteries in it. Basically, to use the Touch-Tone



1 Schell - Redirect

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2 pad, you would pick up the rotary-dial handset, hold it  
3 in your hand, put the pad on top of it, hold it, and then  
4 you would simply touch-tone in as you would on a TOUCH-  
5 TONE phone the number that you're calling. And that  
6 then allows a rotary-dial customer to reach an OCC  
7 through the Feature Group A form of interconnection.

8 COMMISSIONER SHANNON: Is that  
9 available from Radio Shack?

10 THE WITNESS: Yes, that is the  
11 Radio Shack model, as a matter of fact.

12 COMMISSIONER SHANNON: What does  
13 it cost?

14 THE WITNESS: That was \$25, but I  
15 think you can find them even cheaper through  
16 Bernstein-Applebee in the catalog.

17 BY MS. McCAREY: (Continuing)

18 Q Mr. Schell, if I were to describe the  
19 size of that, would it be fair to say about an inch  
20 and a half wide by maybe two and a half inches long?

21 A It's about a cigarette package in  
22 size.

23 Q And that fits over the telephone,  
24 the telephone receiver?

25 A It fits over the telephone transmitter,

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the mouthpiece that you speak into.

COMMISSIONER BRADSHAW: Do any of the  
OCCs lease those, to your knowledge?

THE WITNESS: I don't know how they  
get them, but they sent me a letter offering  
to sell me one.

(Laughter)

COMMISSIONER BRADSHAW: What was  
their price?

THE WITNESS: In my -- I didn't call  
and ask them, I must admit, but in Attachment A,  
Page 5 of my testimony, they sent me a letter  
offering to sell me their service, and said  
that if I did not have a TOUCH-TONE phone  
not to worry about it. It says that, "Even if  
your phone has a rotary-dial, our simple and  
inexpensive conversion device will adapt it in  
seconds."

MR. MAGEE: Excuse me, Judge Shannon,  
but I'm almost tempted to ask to make that an  
exhibit, but I won't.

(Laughter)

MR. MAGEE: There is one item  
outstanding I had asked Mr. Schell at the break,

Schell - Redirect

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or at a time it was convenient to him --

COMMISSIONER SHANNON: Yes, you did.

Did you have a chance to look at it?

THE WITNESS: I'm sorry, Mr. Magee,  
it slipped my mind. I'm willing to take a  
moment right now. I have the tariff in my  
briefcase, and I can --

COMMISSIONER BRADSHAW: Well, you can  
do it on our luncheon break.

THE WITNESS: I will accept, subject  
to check, that it was not provided for in that  
tariff.

COMMISSIONER SHANNON: Will you accept  
that, subject to check?

MR. MAGEE: That's fine.

COMMISSIONER SHANNON: Mr. Moore?

MR. MOORE: I want to just follow up.

RECROSS EXAMINATION

BY MR. MOORE:

Q How many of those devices are in use  
in Virginia?

A I would have no way of knowing, but  
Radio Shack stocks them in volume. I mean you can go to

1 Schell - Recross

2 any Radio Shack and buy them, and Radio Shack normally  
3 does not deal in things that don't move.

4 (Laughter)

5 COMMISSIONER SHANNON: Would that have  
6 any -- Mr. Schell, would that have any use  
7 other than to convert a rotary phone to a  
8 dial-type, I mean to a TOUCH-TONE-type  
9 operation?

10 THE WITNESS: That would be, I think,  
11 its primary usage. Some people who have  
12 bought answering machines, that can be activated  
13 by sending a tone. I believe most of those  
14 devices come with their own little tone  
15 generator that's used to activate the recorder.

16 COMMISSIONER SHANNON: So you would  
17 say the practically exclusive use of that  
18 would be for conversion of a rotary-type  
19 phone to a TOUCH-TONE?

20 THE WITNESS: That would be my  
21 opinion, yes.

22 COMMISSIONER SHANNON: Okay.

23 BY MR. MOORE: (Continuing)

24 Q Mr. Schell, don't you use those to  
25 access computers also, if you're on a rotary-dial phone

1 Schell - Cross

2 and you need to have access. Say you're down in the Northern  
3 Neck of Virginia, and you need to have your computer talk  
4 to the computer in Richmond, can't you use one of those,  
5 or something very similar to it, to make the initial  
6 access, once you get the line in Richmond?

7 A Oh, yes, it would be analogous to the  
8 way it would be used by the OCCs' patron.

9 Q You don't know how many are used  
10 for that as opposed to used for MCI or Sprint or anybody  
11 else, do you?

12 A No, sir, I don't.

13 Q Okay, and if I had one of those,  
14 that will fit in your pocket; won't it?

15 A Yes, sir.

16 Q You'd probably have to keep it in  
17 your pocket because if you're upstairs and you want  
18 to use the phone, you'd have to have it upstairs,  
19 if it's going to be as convenient as AT&T; isn't that  
20 right?

21 A Well, I think most people simply leave  
22 them by the phone.

23 Q What, do they buy two or three of them?

24 A Well, I --

25 Q So now a conversion is up not to 29,

1 Schell - Cross

2 but maybe up to \$100, if you've got three telephones?

3 A Well, I think if you have -- I think  
4 that each customer has one of these, in my opinion.

5 Q But you don't have any idea, do you?

6 A I don't know.

7 MR. MOORE: I didn't think so.

8 Thank you. That's all I have.

9 COMMISSIONER SHANNON: Thank you.

10 CHAIRMAN HARWOOD: Let me just ask  
11 you a question. If you do use that to access  
12 for computers, then can you just simply push  
13 your receiver or instrument in the modem  
14 and continue, once you've made the contact?

15 THE WITNESS: Yes, you could.

16 COMMISSIONER SHANNON: Thank you  
17 very much, Mr. Schell. You may stand down,  
18 and your testimony will be received as  
19 marked.

20

21

\* \* \* \* \*

22

WITNESS STOOD ASIDE

23

24

COMMISSIONER SHANNON: Call your next

25

1 Wilcox - Direct

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2 witness, because we've still got eight minutes,  
3 and we want to use every minute we've got.

4 MR. MORRISSEY: At this time, we  
5 call Mr. Wilcox to the stand.

6  
7  
8 DOUGLAS S. WILCOX, a witness called by  
9 and on behalf of the Petitioner, having been first duly  
10 sworn, testifies as follows, viz:

11 DIRECT EXAMINATION

12 BY MR. MORRISSEY:

13 Q Mr. Wilcox, would you please give your  
14 name and business address for the record.

15 A My name is Douglas S. Wilcox. My  
16 business address is 11300 Rockville Pike, Rockville,  
17 Maryland.

18 Q And previously filed with the  
19 Commission and served on all parties is a document  
20 consisting of 20 pages of testimony and Attachments  
21 DSW-1 through 9, with the heading, Testimony of Douglas S.  
22 Wilcox, with the date of July 27, 1984. I would ask that  
23 this be marked for identification.

24 COMMISSIONER SHANNON: It will be  
25 marked -- his 20 pages of narrative and nine

1 Wilcox - Direct

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2 pages of attachments will be marked as

3 Exhibit DSW-4.



DSW-4

**VIRGINIA STATE CORPORATION COMMISSION**

**CASE NO. 840023**

**TESTIMONY OF  
DOUGLAS S. WILCOX**

**JULY 27, 1984**

**Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

**A. My name is Douglas S. Wilcox and my business address is 11300 Rockville Pike, Rockville, Maryland.**

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

**A. My present position is Area Manager, State Pricing Implementation, for the Mid-Atlantic area of AT&T Communications, Inc.**

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

**A. I received a Bachelor of Science degree in Management from Rensselaer Polytechnic Institute in 1965 and was awarded a Master of Business Administration from the University of Minnesota in 1969.**

**Q. WHAT IS YOUR EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY?**

**A. I began my career with Northwestern Bell in 1965 in the Traffic Department. After assignments supervising dial facility assignment operations and long distance operator offices, I became a District Traffic Manager in 1969. I transferred to the Commercial Department in 1971 as District Manager. In 1976, I became Division Manager - Operations with responsibility for sales, collections, and installation and maintenance of service for business and residence accounts. I transferred to corporate headquarters in 1981 as Division Staff Manager - Residence Marketing. In this position, I was responsible for developing long distance**

rate plans. Later that year I assumed responsibility for the pricing of exchange services and developed economic analyses of the revenues and costs of providing exchange service. These studies were used to develop rates for local exchange services and to plan for the modernization of exchange switching. In November, 1982, I joined AT&T in my present position.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain why this Commission should allow AT&T Communications to price its services competitively within the Commonwealth of Virginia and why the Company should be subject only to the flexible regulation inherent in the rules for interexchange carriers adopted by the Commission on June 29, 1984.

Q. PLEASE DESCRIBE BRIEFLY THE STRUCTURE OF THE TELECOMMUNICATIONS INDUSTRY.

A. The current industry structure is vastly different from the past structure, in which the existing regulatory rules, policies and principles were formulated. For almost 100 years, AT&T and its operating companies and the independent telephone companies provided local and long distance services as monopolies. Today, as a result of technological advances and sweeping changes in public policy at the federal level, both within the Federal Communications Commission and the courts, such monopolies have been

fundamentally altered. One obvious example of these changes in telecommunications policy lies in the terminal equipment market, which has been transformed from a regulated monopoly into a highly competitive unregulated market. The development of competition for long distance (interexchange) services is accelerating. Other Common Carriers (OCCs) have established strong market positions; resellers have grown steadily in number and levels of business; and specialty carriers, such as Domestic Satellite Carriers and Value Added Network carriers, have become viable and expanding businesses. The structural changes in the Bell System required by the Modification of Final Judgment (MFJ), whereby AT&T no longer has ownership of the Bell local exchange companies, and the equal access requirements established by the MFJ are additional significant manifestations of profound change in the telecommunications industry.

- Q. PLEASE GIVE A BRIEF OVERVIEW OF THE TELECOMMUNICATIONS MARKET AS IT EXISTS TODAY.
- A. The telecommunications market today requires satisfaction of fast-changing and expanding customer needs. Customers require increasingly sophisticated communications options and improved productivity (price-performance) from their communications services. The most obvious indicator of the business opportunities in this high-growth industry is the emergence of multiple suppliers, many of which have

prospered by providing alternative services with a wide variety of price levels and capabilities. Technological advances such as computer switching and microwave and satellite transmission, as well as the introduction of resale, have permitted many new entrants to sell services to both residence and business customers in selectively targeted segments of the market.

Some business customers who were not satisfied by available options have become self-suppliers. Residential customers have many choices as well. Television and Virginia's major newspapers frequently display a variety of advertisements of the carriers which are competing for residential toll users' business.

Q. WILL YOU BE MORE SPECIFIC AS TO THE EMERGENCE OF MULTIPLE SUPPLIERS IN THE INTEREXCHANGE TELECOMMUNICATIONS MARKETPLACE?

A. Yes. The following statistics demonstrate that rapidly expanding competition exists nationwide in the industry:

- Two-thirds of the U.S. population resides in areas now served by one or more OCCs such as MCI, GTE-SPRINT, USTS and Western Union.
- OCCs and resellers have signed up as many as 19% of residence customers with monthly bills of \$25 or more and 34% of residence customers with monthly bills of \$100 or more.
- Forty-six percent of business customers with monthly bills of \$50 or more and 56% of business customers with monthly bills of \$150 or more use a competitor's long distance service.

- There were over 3.3 million subscribers to OCCs and resellers as of December 31, 1983, a five-fold increase over 1981.
- MCI alone served about 1.7 million customers as of March 31, 1984, up from about 730,000 in 1982, and about 280,000 in 1981.
- As of March 31, 1983, MCI served more than 270 metropolitan areas and 7000 communities in more than 80% of the nation's telephone area codes, a gain of 50 metropolitan areas in its 1983 fiscal year alone.
- MCI revenue increased by 236 percent, from \$506.4 million to \$1.7 billion from the fiscal years ending March 31, 1982 and March 31, 1984, respectively.
- MCI's return on common equity for fiscal years 1982 and 1983 was 42.7% and 33.9%, respectively.
- MCI's annual capital expenditures for network expansion increased from \$271.5 million in 1982 to \$900 million for the year ending March 31, 1984.
- Sprint earned \$64 million in 1982, compared to \$22 million in 1981 and a loss of \$15 million in 1980.
- At least 8 Value Added Network Carriers and 6 Domestic Satellite Carriers are competing for interexchange business.
- In June 1982, when the FCC ended its requirement for interstate resellers to apply for permission to provide service, over 300 applications had already been filed.
- Over 1,500 organizations own private microwave facilities in the U. S., covering over 300,000 route miles.

**Q. IS THE TELECOMMUNICATIONS MARKET IN VIRGINIA EXPERIENCING SIMILAR CHANGE AND EXPANSION?**

**A. Yes. Many suppliers have established a presence in Virginia to meet the demand of rapidly changing and expanding**

customer needs. These satellite and facilities based carriers, resellers, and private telecommunications networks provide a full array of voice and data services dispersed across the Commonwealth. A list of competitors and the services they provide is shown on Attachment DSW 1.

Some large business and institutional customers in the Commonwealth have become self-suppliers. For example, the Virginia state government has announced plans to develop its own network to serve the state's communications needs. The development of telecommunications enhanced real estate projects in Virginia is another prime example of self-supply. Tenants are attracted to office space in which the telecommunications facilities are already available, thus alleviating the need to deal with several different vendors for their communications systems.

Q. WHAT SERVICES DOES AT&T COMMUNICATIONS OF VIRGINIA PROVIDE?

A. AT&T Communications provides interexchange communications services which include long distance, WATS/800, and channel services. Each of these services is subject to competition from other carriers that have applied for certification by this Commission as well as from private microwave systems. AT&T Communications provides no local exchange services or any other type of monopoly service in Virginia.

**Q. PLEASE DESCRIBE AT&T LONG DISTANCE SERVICE.**

**A. AT&T Long Distance Service is a service offering applicable to calls placed over the AT&T Communications switched network to points beyond the local calling area. Customers use this service not only for voice but for data and graphics communications as well. Prices for each long distance call are based on the distance between the originating and terminating points of the call and on the duration of the call. Each customer receives detailed itemized billing information such as telephone number, locality, the day and time the call was placed and the duration of the call. AT&T long distance service also includes operator assistance, which is used for special billing arrangements (calling card, third number billing, collect), directory assistance, person-to-person, and operator handled conference service.**

**Q. PLEASE DESCRIBE AT&T WATS.**

**A. AT&T WATS is a service designed to meet the telecommunications needs of customers who originate a relatively large volume of calls to many exchanges throughout Virginia. The service is provided in conjunction with a Local Exchange Carrier's (LEC's) intraLATA WATS. It provides for the completion of calls on an access line provided by the LEC. The tapered usage charges in AT&T Communications' tariff apply only to interLATA usage.**



Q. PLEASE DESCRIBE AT&T 800 SERVICE.

A. AT&T 800 Service provides "toll free" service to the calling party at the expense of the called party. Customers use this service to provide toll-free calling for their patrons who call from anywhere in Virginia to the customers' specific locations. The service is provided in conjunction with a Local Exchange Carrier's (LEC's) intraLATA 800 Service. It provides for the completion of calls on an access line provided by the LEC. The tapered usage charges in AT&T Communications' tariff apply only to interLATA usage.

Q. PLEASE DESCRIBE CHANNEL SERVICES.

A. Channel Services are services provided over dedicated paths between two or more points for the continuous and exclusive use of a particular customer. In general, these services consist of three basic parts -- local channels, transmission and/or signaling equipment and interoffice channels. Some of the Channel Services AT&T Communications will provide are Series 1000 (Teletype Service), Series 2000 and Series 3000 (Voice Grade and/or Data Services).

Q. CAN YOU PROVIDE DATA WHICH ILLUSTRATE THE EXTENT OF COMPETITION IN VIRGINIA?

A. Yes. The following data demonstrate that rapidly expanding competition exists in Virginia:

- and resellers*
- . MCI, GTE-Sprint, Western Union, and United States Transmission Systems (USTS) are currently active in the Commonwealth serving at least 48 cities. A list of known cities served by competitors as of March, 1984 is shown in Attachment DSW 2.
  - . At least 18 resellers are active in Virginia.
  - . Three of the nation's eight Value Added Network Carriers and six Domestic Satellite Carriers provide service to customers in Virginia.
  - . Over 57 organizations have been authorized to construct private microwave systems in Virginia with 307 telecommunications paths. They are listed in Attachment DSW 3.
  - . Three telecommunications enhanced real estate projects are either completed or under development.

Q. INTEREXCHANGE COMPETITION HAS BEEN WELL DOCUMENTED IN THE INTERSTATE ARENA; IS COMPETITION LIMITED TO INTERSTATE SERVICES IN VIRGINIA?

A. Definitely not. While the explosive growth of competition in the industry is most evident in the interstate market, the level of competitive activity for intrastate services is growing steadily. Although OCCs have only recently applied for certification to provide intrastate services in Virginia, evidence suggests that these carriers have been providing intrastate services for their customers.

Some OCCs have admitted that they do not block intrastate calls. MCI has stated, for example, that intrastate usage in the state of Ohio is higher than 30%. MCI's attorney in this proceeding has admitted that MCI provided intrastate service in Virginia prior to its request for certification.

Q. WHAT IS AT&T COMMUNICATIONS' NATIONWIDE MARKET SHARE?

A. AT&T Communications' nationwide market share based upon 1983 domestic toll revenues on a post-divestiture basis is 57.3 percent (See Attachment DSW 4). There has been a continual eroding of AT&T Communications' market share since intercity telecommunications markets were opened to competition. The diminution of market share is most telling in the areas AT&T Communications' competitors have chosen to serve.

Q. DOES AT&T COMMUNICATIONS' MARKET SHARE ENABLE IT TO PRECLUDE COMPETITIVE ENTRY?

A. No. It is apparent based upon the market penetration that other common carriers and resellers have made in their targeted markets that AT&T Communications does not possess the power to preclude entry or expansion and thus maintain market share in these areas. The results of a 1983 nationwide residence and business survey clearly demonstrate the successful market penetration achieved by AT&T Communications' competitors in their targeted markets. The studies indicate a 19% penetration level for residence customers who make \$25 or more per month in long distance calls and a 34% penetration level for residence customers who make \$100 or more of calls each month. Forty-six percent of business customers who place \$50 or more of interstate calls per month subscribe to services from our competitors, and 56% of business customers with monthly bills of \$150 or more use a competitor's long distance

service. These high usage customers generate a substantial portion of total long distance revenues. Business customers with monthly bills of \$50 or more represent less than 14% of all business customers but account for 90% of all business long distance revenues. Residence customers spending \$25 or more per month represent only 10% of all households but account for 51% of the residence long distance revenues.

The Commission should also take into account that any analysis of AT&T Communications' market share is skewed by the fact that AT&T Communications is the sole provider in certain areas where the OCCs have not chosen to compete. As a regulated entity, AT&T has been compelled to charge prices in some cases which are below its costs. In those situations, any firm is likely to have an overwhelming market share. Such market share does not equate to market power, but rather demonstrates that the market is so unattractive at the allowed price that the only firm that will serve it in the long run is either one forbidden by regulatory fiat from leaving the market or one induced to remain in the market by being permitted to charge prices substantially higher than costs in other markets. In these circumstances, the large market share demonstrates the lack, rather than the possession, of market power.

Q. IS REVENUE THE ONLY APPROPRIATE MEASURE OF MARKET SHARE?

A. No. Revenue is only one basis for measuring market share. Once the relevant market has been defined, a variety of means can be employed to compute market share. Any reliable measure, however, should recognize the available transmission capacity of competing carriers. Available capacity best reflects a firm's ability to serve AT&T Communications' customers or any other carrier's customers in the event these carriers were to raise their prices above competitive levels. This dynamic indicator of market share is more reflective of the competitive marketplace than traditional static measures. It can act as an effective deterrent against any uneconomic price increase.

Q. WHAT IS AT&T'S SHARE OF INTERSTATE MARKET CAPACITY?

A. AT&T's share of domestic interstate capacity as of the end of 1984 will be only 45 percent. See Attachment DSW 5.

Q. PARTIES TO OTHER PROCEEDINGS HAVE STATED THAT AT&T HAS AN ADVANTAGE OVER ITS COMPETITORS BECAUSE OF BRAND LOYALTY AND BEING SO WELL KNOWN. DO YOU HAVE ANY FACTS ON THIS SUBJECT?

A. Yes. AT&T Communications clearly recognizes that corporate image is an important factor in a successful marketing program. We commissioned a study late last year to determine the extent to which consumers recognized AT&T and AT&T Communications as long distance companies. The study showed that only 7% of those canvassed in third quarter 1983 named AT&T as a long distance company, while 44% named MCI.

The study continued in ensuing quarters as we began our advertising campaign to cause people to recognize that AT&T and AT&T Communications were providing long distance services. Results of the studies are shown in Attachment DSW 6. These results show that our advertising has had effect. We are now on a par with MCI as far as consumer recognition is concerned. This is very important because many customers will be choosing a preferred long distance carrier in the near future as equal access becomes available. If consumers do not recognize AT&T as a long distance carrier, we will not be successful in our efforts to attract customers during the presubscription process. It is obvious that we will need to continue to try to educate the consuming public that AT&T and AT&T Communications provide long distance services. In addition, the studies make it obvious that we do not enjoy any competitive advantage due to brand loyalty.

**Q. DOES AT&T COMMUNICATIONS HAVE ANY INDICATION OF THE OCCS' PENETRATION OF THE VIRGINIA INTRASTATE MARKET?**

**A. Yes. A recent 1984 study was commissioned to determine the extent to which consumers recognized AT&T Communications and its competitors as interstate and/or intrastate telecommunications carriers in the Commonwealth of Virginia. Additionally, the study measured the market penetration achieved by our competitors in the intrastate arena. The results of the residence and business survey**

clearly demonstrate the high level of competitive activity in the intrastate marketplace. These results are particularly noteworthy since AT&T Communications was ostensibly the only carrier permitted to operate in the interexchange market in Virginia.

The study revealed that both residence and business customers use their OCC services to make intrastate calls. According to the study, large companies tend to make both interstate and intrastate calls, but small companies make predominantly intrastate calls over their OCC services.

The majority of the business and residence respondents perceive AT&T Communications, MCI, and GTE-Sprint to be interstate and intrastate carriers. See Attachment DSW 7 for carrier awareness levels.

Twenty-eight percent of business customers in Virginia subscribe to a non-AT&T interexchange service. Of those, nearly 80 percent (23% of all business customers in the Commonwealth) use the non-AT&T service to place intrastate long distance calls. Fifty percent of business customers who make \$5000 worth of calls per month or more subscribe to services from our competitors, and 40% of business customers who make between \$1,000 and \$5,000 worth of interexchange calls monthly use a competitor's long distance service. Of even greater significance, in areas

where non-AT&T carriers offer interexchange service, 50% of all business customers use a non-AT&T interexchange carrier.

Eleven percent of residence customers in Virginia subscribe to a non-AT&T interexchange service. Of those, over 80% (9% of all residential customers in the Commonwealth) use the non-AT&T service to make intrastate calls. In areas where non-AT&T carriers offer interexchange service, 35% of all residential customers use a non-AT&T carrier.

Statewide, the study indicates a 17% market penetration level for non-AT&T carriers among residence customers who make \$25 or more per month in long distance calls. The results of the studies are shown in Attachment DSW 8.

Q. ARE THE SERVICES PROVIDED BY AT&T COMMUNICATIONS' COMPETITORS OF COMPARABLE QUALITY?

A. Yes. It is incumbent upon our competitors to provide quality service because customers expect a certain standard of quality. Our competitors are apparently providing service that satisfies that standard. Their advertisements are replete with assurances of quality service equal to that of AT&T. Their networks are touted as being more modern and efficient than AT&T's. One carrier refers to itself as a low-cost, high-quality long distance alternative. One frequently run ad indicates that 396 of the Fortune 500 use its service. A television ad invites



the listener to detect a difference in quality. Examples of competitors' ads are shown in Attachment DSW 9.

A great number of consumers have responded to these ads by subscribing to the services of OCCs and resellers. Large, sophisticated business customers and residence customers with discriminating taste are apparently satisfied with the quality of telecommunications services they receive from competing carriers. I would imagine if customer dissatisfaction were widespread, many would hasten to switch carriers. This clearly has not happened.

Moreover, AT&T's competitors seem to have complete confidence that they can compete on the basis of equality with AT&T under current market conditions. For example, in his "Letter to Stockholders" at the front of MCI's 1984 Annual Report, Chairman William G. McGowan wrote

Today is a unique time in telecommunications. Divestiture has changed our world. It is a time of confusion, but also great opportunity. The telecommunications market today is one in which no one has an inherent advantage. In this new era, MCI will prosper. Our services are leveraging off one another, and our communications network is providing the means for them all. (Annual Report p. 4, emphasis supplied).

An added assurance of continued quality is the fact that many facilities-based carriers and most resellers lease facilities from AT&T. Furthermore, our competitors are assured equal access to local facilities under the MFJ. Equal access capability in Virginia is scheduled to be 90.6% complete by September of 1986.

Q. IS CONTINUED REGULATORY OVERSIGHT OF AT&T'S PRICES NECESSARY?

A. No. AT&T Communications has chosen to serve customers in all geographic locations in the Commonwealth of Virginia. The Company could not, for example, charge prices substantially above costs in some rural areas merely because the present level of competition is not as great in those areas. Large price increases would result in serious customer irritation and concomitant loss of goodwill, and would also encourage immediate competitive entry. These factors would limit revenue gains both in terms of amount and duration. Furthermore, even if AT&T Communications were to engage in this type of pricing behavior, it is doubtful that enough revenues would flow from this sparse customer base to make cross-subsidization viable. Finally, it should be recognized that any actual cost differentials in serving rural customers are now greatly overshadowed by the huge subsidy levels built into access charges. This fact mitigates against any need to deaverage prices geographically.

In short, AT&T's corporate policy is never to abandon rural customers. While there are economic realities and cost imperatives involved in serving rural areas which must be faced in the future, it is AT&T's corporate policy to maintain its current statewide rate uniformity by service category.

Q. IS RATE BASE/RATE OF RETURN REGULATION APPROPRIATE IN A DEREGULATED ENVIRONMENT?

A. No. As the transition to fully competitive interexchange markets takes place, standard regulatory procedures which are based on establishing a fixed rate of return become increasingly inappropriate. AT&T Communications of Virginia has neither a large rate base nor a stable source of recurring monthly revenues. Both are characteristics of the traditional regulated company in which fixed costs are high. Because AT&T Communications' rate base is small, changes to the rate base occur in large incremental steps when old facilities are replaced or additional capacity is added. This is in marked contrast to the relatively steady growth of the predivestiture regulated companies. Earnings volatility is another reason why rate base, rate of return regulation should be eliminated. A competitive marketplace will cause carriers to earn the rate of return which their competitive performance merits.

Q. IS AT&T COMMUNICATIONS CAPABLE OF CUTTING PRICES AND DRIVING COMPETITION OUT OF THE VIRGINIA MARKET?

A. Clearly not. Any attempt to price under cost would result in serious financial losses to AT&T Communications which would be impossible to recoup later. Many of our competitors are backed by large, financially sound firms capable of quickly entering market areas they are not presently serving. As a matter of fact, parties to this proceeding have stated their intention of being ubiquitous originating carriers.

Q. IF THIS COMMISSION WERE TO ALLOW AT&T COMMUNICATIONS TO PRICE ITS SERVICES COMPETITIVELY, WOULD IT STILL HAVE AN EFFECTIVE MEASURE OF CONTROL OVER THESE PRICES?

A. Yes. The Commission has made it clear that it will maintain regulatory oversight over all interexchange carriers and should it find that market forces are not causing carriers to behave competitively, it will immediately reimpose traditional regulatory constraints. The threat of this reimposition of traditional regulation will, by itself, be a major incentive for carriers to operate in a responsible manner. Furthermore, the Commission will continue to have a large measure of control over AT&T's prices because it controls the major share of its costs. Access charges comprise the vast majority of AT&T Communications' incremental costs (greater than 90%) and approximately seventy-five percent of its total operating expenses. Because we believe some of these charges are unreasonable and unlawful, we have filed a formal complaint with this Commission opposing both the

level and structure of access charges. The access charges approved by the Commission will, to a great extent, determine the prices we must charge our customers.

Q. WILL DEREGULATION OF AT&T COMMUNICATIONS' INTRASTATE PRICES BE IN THE BEST INTEREST OF THE GENERAL PUBLIC?

A. Yes. Not only will AT&T Communications be able quickly to bring pricing and technological innovations to all interexchange services users in Virginia, it will be able to do so without the burden of costly regulatory proceedings. These are costs our customers will not have to bear in our prices. Also, the general public will benefit because the costs of the SCC will not have to be greatly increased. In New Jersey, for example, which has a state law requiring full regulation of interexchange carriers, the commission has announced plans to add 36 people to the telecommunications staff. Taxpayers in Virginia should not have to bear a similar burden under flexible regulation.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

## **KNOWN VENDORS OPERATING IN VIRGINIA**

### **SPECIALIZED COMMON CARRIERS**

1. MCI
2. GTE-Sprint
3. USTS
4. Western Union

### **RESELLERS**

1. Allnet
2. Lexitel
3. Satelco
4. US Tel
5. Tele-Sav
6. Budgetcall
7. Call Saver
8. Central Wholesale
9. Nationwide
10. NCHE
11. Telecom Systems
12. Americall
13. Commonwealth
14. SouthernTel
15. TDX Systems
16. Isacomm
17. TELTEC
18. Telamarketing

### **DOMSATS**

1. SBS

### **VANS (VALUE ADDED NETWORKS)**

1. Tymshare
2. GTE Telenet

**LIST OF KNOWN SERVICES OFFERED BY COMPETITORS**

<u>COMPANY</u>	<u>SERVICE GROUP</u>	<u>SERVICES</u>
<b>ALLNET</b>	MTS - Like WATS - Like WATS - Like WATS - Like	Allnet Allnet Ded. Svc. Intelnet Least Cost Route
<b>GTE-SPRINT</b>	DATA MTS - Like Private Line Private Line Private Line Private Line Private Line Private Line WATS - Like	Datadial Sprint Analog PL Data Channels Digital Data FX Svc. SAT. Transmission Svc. Speedfax Direct Sprint
<b>GTE-TEL</b>	Electronic Message Svc. Packet Switched Data Comm.	Telemail Packet Switched
<b>ISACOMM</b>	Cellular Radio Packet Sync. Svc. Private Line Special Service TV	DTS Com. Network Svc. Incall CNS Video Telecon.
<b>LEXITEL</b>	MTS - Like MTS - Like WATS - Like	MAX 1 MAX 3 MAX 2
<b>NCI</b>	MTS - Like MTS - Like MTS - Like Private Line Private Line Private Line Private Line Private Line Private Line Special Service Special Service WATS - Like	Basic Service Credit Card Execunet Dedicated Leased Ext. Point Svc. FAXNET Program Channel Quick Line Special Cust. Argmts. Wideband Advantage CCSA Telemanagement Network Service
<b>SATELCO</b>	DATA MTS - Like	WATS - Like MTS - Like

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**LIST OF KNOWN SERVICES OFFERED BY COMPETITORS**

<u>COMPANY</u>	<u>SERVICE GROUP</u>	<u>SERVICES</u>
<b>SBS</b>	DATA MTS - Like Private Network Private Network Program TV WATS - Like 888	DNS MS-II CNS-A CNS-B TCS International Svc. MS-I Type XII Mess. Svc.
<b>US TEL</b>	MTS - Like MTS - Like MTS - Like MTS - Like MTS - Like MTS - Like MTS - Like MTS - Like MTS - Like MTS - Like Private Network WATS - Like WATS - Like WATS - Like WATS - Like WATS - Like WATS - Like	Alamo Discount All - America Plus All - America 188+ All - America 250CC All - America All - America I All - America Res. All - America 25 All - America 250 Home Line Point-to-Point All - America 2500 All - America 5000 Bulk Service BDP - LD Discount Wide Area of Svc. Wide Area of Svc.
<b>USTS</b>	Calling Card MTS - Like MTS - Like MTS - Like Private Line Private Line Private Line Private Line Special Service Special Service Special Service Special Service WATS - Like WATS - Like WATS - Like WATS - Like WATS - Like WATS - Like WATS - Like	Auto Collect Svc. Longer Distance Travel Universal Svc. Analog Data Dedicated Access Leased Channel-C Wideband CCSE Leased Channel-A Leased Channel-B SPNS Off-Net DACC - NACC Hotelnat SPNS FX SPNS Plus USA - Option 1 USA - Option 1500 USA - Option 2



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**LIST OF KNOWN SERVICES OFFERED BY COMPETITORS**

<u>COMPANY</u>	<u>SERVICE GROUP</u>	<u>SERVICES</u>
WESTER UNION	NTS - Like	Metrofone - S D
	Private - Line	Audio Program
	Private - Line	Broadcast
	Private - Line	Hotline
	Private - Line	Lo Speed PL Channel
	Private - Line	Series 4000
	Private - Line	Series 8000
	Private - Line	Series 9000
	Private - Line	Specific Speed PL
	Private - Line	Voice Grade PL
	Private - Line	Metrofone - Ded.

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LIST OF CITIES SERVED BY DIFFERENT VENDORS

<u>STATE</u>	<u>CITY</u>	<u>A</u> <u>L</u> <u>N</u> <u>E</u> <u>T</u>	<u>S</u> <u>P</u> <u>R</u> <u>I</u> <u>N</u> <u>T</u>	<u>G</u> <u>T</u> <u>E</u> <u>N</u> <u>T</u> <u>L</u>	<u>I</u> <u>S</u> <u>A</u> <u>C</u> <u>O</u> <u>N</u> <u>M</u>	<u>L</u> <u>E</u> <u>X</u> <u>I</u> <u>T</u> <u>E</u> <u>L</u>	<u>M</u> <u>C</u> <u>I</u>	<u>S</u> <u>A</u> <u>T</u> <u>E</u> <u>L</u> <u>C</u> <u>O</u>	<u>S</u> <u>B</u> <u>S</u>	<u>T</u> <u>M</u> <u>S</u> <u>H</u> <u>A</u> <u>R</u> <u>E</u>	<u>W</u> <u>U</u>	<u>U</u> <u>S</u> <u>T</u> <u>S</u>	<u>U</u> <u>S</u> <u>T</u> <u>E</u> <u>L</u>
VA	ALEXANDRIA	X				X		X			X		X
	ARLINGTON	X				X			X		X		X
	ASHLAND	X											
	BETHIA	X											
	BRADDOCK	X											
	CHARLOTTESVILLE		X			X	X				X		
	CHESAPEAKE					X							
	CHESTER	X											
	CULPEPER										X		
	DULLES	X											
	ENGLESIDE	X											
	FAIRFAX	X									X		
	FALLS CHURCH	X											
	FREDERICKSBURG						X						
	GREAT BRIDGE	X											
	GREAT FALLS	X											
	HAMPTON					X							
	HERNDON	X		X									
	HICKORY	X											
	LANGLEY AFB										X		
	LEESBURG						X				X		X
	LORTON	X											
	LORTON METRO	X											
	LYNCHBURG					X				X	X	X	

**VIRGINIA**

**LIST OF CITIES SERVED BY DIFFERENT VENDORS**

<u>STATE</u>	<u>CITY</u>	<u>A</u>	<u>S</u>	<u>G</u>	<u>I</u>	<u>L</u>	<u>S</u>	<u>T</u>	<u>M</u>	<u>S</u>	<u>T</u>	<u>U</u>	<u>U</u>
		<u>L</u>	<u>P</u>	<u>T</u>	<u>S</u>	<u>E</u>	<u>A</u>	<u>E</u>	<u>S</u>	<u>H</u>	<u>W</u>	<u>S</u>	<u>S</u>
		<u>N</u>	<u>R</u>	<u>E</u>	<u>A</u>	<u>I</u>	<u>M</u>	<u>L</u>	<u>B</u>	<u>A</u>	<u>U</u>	<u>T</u>	<u>T</u>
		<u>E</u>	<u>I</u>	<u>N</u>	<u>O</u>	<u>E</u>	<u>C</u>	<u>C</u>	<u>S</u>	<u>R</u>			
		<u>T</u>	<u>T</u>	<u>L</u>	<u>N</u>	<u>L</u>	<u>I</u>	<u>O</u>	<u>S</u>	<u>E</u>			
		-	-	-	-	-	-	-	-	-	-	-	-
VA	MANAKIN	X											
	MANASSAS							X					
	MARTINSVILLE										X		
	MCLEAN	X											
	MECHANICSVILLE	X											
	MIDDLETOWN										X		
	MIDLOTHIAN	X											
	NEWPORT NEWS		X	X		X	X				X	X	X
	NORFOLK	X	X	X		X	X	X		X	X	X	X
	PENTAGON										X		
	PETERSBURG						X				X		X
	PORTSMOUTH	X				X					X		X
	PRINCESS ANNE	X											
	PUNGO	X											
	RICHMOND	X	X	X	X	X	X	X		X	X	X	X
	ROANOKE		X	X		X	X			X	X		
	ROCKVILLE	X											
	SANDSTON	X											
	SPARTANBURG											X	
	VARINA	X											
	VIENNA	X											
	VIRGINIA BEACH	X				X					X		X
	WARRENTOWN										X		
	WINCHESTER										X		

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## Private Microwave Systems

<u>Owner Name</u>	<u># Of Paths</u>	<u>Physical Route Miles</u>
American Telephone & Telegraph Co.	1	9.3
Atlantic Research Corporation	2	22.9
Cable Satellite Public Affairs Network	1	2.1
George Mason University Foundation, Inc.	1	1.0
GTE Telenet Communications Corporation	1	1.0
Mary Washington Hospital	1	16.2
Mitre Corporation	2	2.0
Omps, H H	1	19.3
University of Virginia	1	2.3
Virginia Tractor Co. Inc.	2	32.5
Washington Post Company, The	3	18.4
Westvaco Development Corporation	1	1.0
Pyramid Video, Inc.	1	4.2
Commonwealth Gas Pipeline Corporation	2	24.1
Transcontinental Gas Pipe Line	4	64.9
Transcontinental Gas Pipe Line	5	227.7
Crider and Shockey, Inc.	1	17.3
H C G Cablevision Inc.	1	9.3
Appalachian Power Company	24	469.7
Appalachian Power Company	1	13.4
Columbia Gas System Service Corporation	8	207.1
Delmarva Power & Light Co. of MD	2	51.5
Kingsport Power Co.	1	2.9
Northern Virginia Electric Cooperative	2	11.6
Potomac Edison Company	2	23.1
Potomac Electric Power Co.	3	29.1
Rappahannock Electric Cooperative	3	80.2
Shenandoah Gas Company	1	33.5
Virginia Electric & Power Co.	26	404.9
Virginia Electric & Power Co.	16	118.5
Virginia Electric & Power Co.	10	128.7
Virginia Electric & Power Co.	2	10.8
Washington Gas Light Company	8	138.4
Washington Gas Light Company	1	2.9
Newport News Shipbuilding & Dry Dock Co.	1	1.0
Virginian Pilot and the Ledger Star	1	6.8
Norfolk and Western Railway Co.	15	337.1
Richmond Fredericksburg & Potomac	2	2.6
Richmond Fredericksburg & Potomac	3	39.1
Richmond Fredericksburg & Potomac	3	68.9
Seaboard Coast Line Railroad Co.	1	27.9
Southern Railway Company	21	328.3
Chesapeake, City of	4	30.5
Chesterfield, County of	7	54.3
Hampshire, County of	5	20.5
Smyth County Emergency Services	1	4.9
Viking Freight System	6	42.1

As of 12/1/83

VIRGINIA  
Private Microwave Systems

(Cont'd)

<u>OWNER NAME</u>	<u># OF PATHS</u>	<u>PHYSICAL ROUTE MILES</u>
Virginia, Commonwealth of	2	6.2
Virginia, Commonwealth of	63	1280.7
Virginia, Commonwealth of	13	302.8
Virginia, Commonwealth of	3	26.5
Virginia, Commonwealth of	6	219.6
Augusta County Emergency Association	1	14.1
Hampshire, County of	1	22.5
Piedmont Emergency Medical Services	1	11.5
Rappahannock-Rapidan Emergency Medical	1	34.8
Western Transportation Co.	<u>5</u>	<u>88.3</u>
	307	5173.

As of 12/1/83

**1983 DOMESTIC INTEREXCHANGE REVENUES****(MTS, WATS PRIVATE LINE)**

	<b>REVENUES (\$ BILLIONS)</b>	<b>3</b>
<b>AT&amp;T</b>	<b>26.133</b>	<b>57.3</b>
<b>INDEPENDENTS</b>	<b>8.298</b>	<b>18.2</b>
<b>BOCs</b>	<b>6.618</b>	<b>14.5</b>
<b>OCCs</b>	<b>3.823</b>	<b>8.4</b>
<b>PRIVATE MICROWAVES</b>	<b><u>.726</u></b>	<b><u>1.6</u></b>
	<b>\$45.582</b>	<b>100.0%</b>

YEAR- END 1984 DOMESTIC INTEREXCHANGE CAPACITY  
(millions of circuit miles)

YEAR-END 1984

TERRESTRIAL

MCI 265M

GTE/SPRINT 100M

USTS 14M

Subtotal 379M

379M

SATELLITE

570M

PRIVATE MICROWAVE

130M

BOC TOLL

87M

INDEPENDENT TOLL

24M

TOTAL COMPETITORS' TOLL

1190M

AT&T

INTERSTATE 811M

INTRASTATE 176M

Subtotal 987M

AT&T CAPACITY SHARE CALCULATION:

AT&T-C In-Service Circuit Miles  
(AT&T-C In Service Circuit Miles)+(Competitors' Engineering Circuit Miles)

$$\frac{987}{987+1190} = 45\%$$

AWARENESS LEVELS OF LONG DISTANCE COMPANIES

	<u>1983</u>		<u>1984</u>	
	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>1st Quarter</u>	<u>April</u>
	Base = 3827	Base = 2900	Base = 4821	Base = 1980
MCI	44%	43%	40%	41%
Sprint	29%	32%	36%	37%
AT&T	7%	22%	41%	42%
Bell System	27%	22%	20%	16%
Bell Operating Company	19%	18%	17%	15%
AT&T Communications	<1%	<1%	<1%	<1%



AWARENESS OF CARRIER PROVIDING  
INTER VS. INTRASTATE SERVICE  
JULY 1984 TOPLINE  
RESIDENCE MARKET

SERVICE	Base =	CARRIER							
		AT&T 338	BELL SYSTEM 47	LOCAL BELL 104	CITY CALL 18	MCI 289	SPRINT 175	ALLNET 6	OTHER 114
Interstate		3%	4%	15%	--	2%	2%	--	21%
Intrastate		3%	4%	2%	28%	18%	25%	17%	9%
Both		94%	92%	83%	72%	80%	73	83%	70%

1150

July 1984

Awareness of Carrier Providing Intra versus Interstate Service  
Business Market

	<u>AT&amp;T</u> (Base = 226)	<u>MCI</u> (Base = 265)	<u>GTE SPRINT</u> (Base = 210)	<u>ITT</u> (Base = 22)	<u>TMC</u> (Base = 20)	<u>Bell System</u> (Base = 47)	<u>Local Bell Company</u> (Base = 79)
Interstate Carrier Only	7%	16%	18%	27%	15%	6%	1%
Intrastate Carrier Only	< 1%	1%	3%	5%	0%	4%	19%
Both Inter and Intrastate Carrier	93%	83%	79%	68%	85%	89%	80%

## VIRGINIA CUSTOMER PENETRATION MATRIX

### TOTAL STATE

	<u>INTRASTATE</u>	<u>INTERSTATE</u>
BUSINESS	24%	23%
RESIDENCE	9%	8%

### IN AREAS WHERE ALTERNATIVE CARRIERS AVAILABLE

	<u>INTRASTATE</u>	<u>INTERSTATE</u>
BUSINESS	50%	53%
RESIDENCE	35%	29%

Virginia

July 1984  
Residence Market

	<u>TOTAL</u> Base = 667	<u>LIGHT</u> Base = 218	<u>MEDIUM</u> Base = 154	<u>HEAVY</u> Base = 247
Total Inter and/or Intra	11%	6%	11%	17%
Use Intra and Interstate	6%	3%	7%	9%
Use Only Intrastate	3%	2%	3%	4%
Use Only Interstate	2%	1%	1%	4%
Do Not Use Competitor	89%	94%	89%	84%

1153

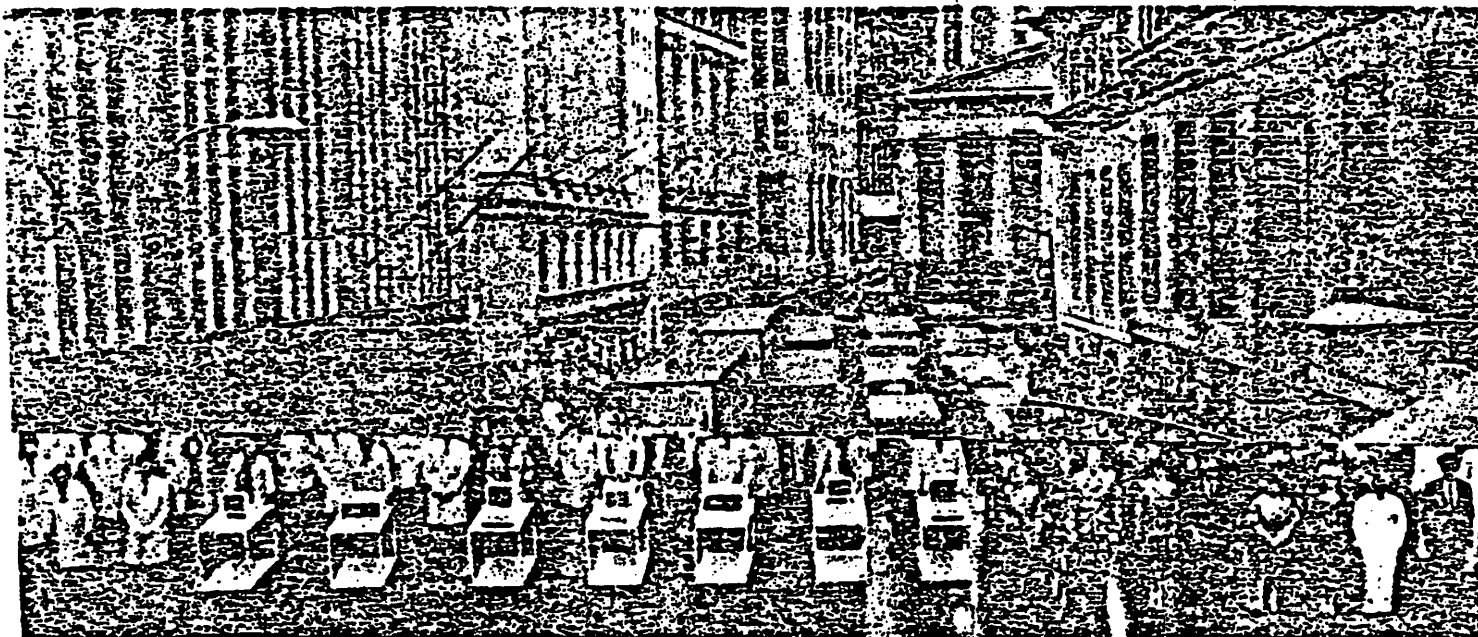
July 1984  
Non-AT&T Subscription  
Business Market

	<u>Total Market</u> (Base = 485)	<u>Primary</u> (Base = 285)	<u>Select</u> (Base = 129)	<u>Major</u> (Base = 14)
Total Inter and/or Intra	28%	21%	40%	50%
Intra Only	5	6	5	0
Inter Only	5	5	5	0
Both Inter and Intra	18	10	30	50
Do NOT use Competitor	72	80	59	50

1154

# 396 of the F cut their long distance c with MCI.

DSW-9  
Pg 1 of 4



## Start cutting yours right I

396 of the FORTUNE 500, including 9 of the top 10 oil companies and 4 of the 5 major automakers, plus 15 of the 16 largest computer companies, 8 of the 10 largest commercial banks, the U.S. Senate, hundreds of thousands of small businesses, and millions of people at home, use MCI.

They all save over AT&T on high-quality long distance. Including a full range of special services such as MCI's own WATS lines.

To find out how you can save on every interstate long distance call, phone or send in the coupon. Do it now. What you learn could mean adding a lot less to AT&T's profits. And a lot more to your own.

MCI Telecommunications Corp  
P.O. Box 1508, Bala Cynwyd, PA

I want to save on long distance without g  
Please rush me more information ☐ For Bus

Name \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City/State/Zip \_\_\_\_\_ T

# MCI

We sound better to bus

215 668-2300 800  
outsic



**9 of the top 10 airlines  
and 4 of the big 5 automakers think  
MCI sounds better to business.**

So do 9 of the top 10 oil companies, 6 of Wall Street's top brokerage firms, 15 of the 16 largest computer companies, the U.S. Senate, hundreds of thousands of small businesses, and millions of people at home.

Which isn't surprising. MCI's long distance network is more modern and efficient than AT&T's. So with MCI you can call any other phone in any other state from coast to coast. And save money on interstate calls. Plus MCI offers a

full range of services customized to suit any business. Such as MCI's own WATS lines.

For more information about what we can do for your business, contact MCI. What you find out could mean adding a lot more to your profits. Send in the coupon or call now.

**MCI**

We sound better to business.

MCI, P.O. Box 1508, Bala C

I want to save on long-distance  
up quality. Please rush me  
For Business

Name \_\_\_\_\_

Title \_\_\_\_\_

Company \_\_\_\_\_

Telephone \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_

In most areas  
215 668-2300

# Call SKYLINE At 238-5460 For The Lowest Cost Long Distance Service.

There's a lot of talk these days about low cost long distance rates. But you haven't talked lowest costs until you've talked with us. No other major long distance service can match our charges. Not MCI. Not SPRINT. Certainly not AT&T.

## Owned By IBM, AETNA and COMSAT.

We're SBS SKYLINE™ Long Distance, a service of Satellite Business Systems, the communications company owned by IBM, AETNA and COMSAT.

Our service was built to satisfy the needs of some of America's biggest corporations for a low cost, high quality long distance alternative.

Thanks to the capacity we built into the service, we're able to offer SKYLINE to all businesses, no matter the size, no matter how big or how small!

The quality of SKYLINE is a direct reflection of the high standards of the three owner-partners.

## Lowest Cost.

And SBS SKYLINE Long Distance rates are designed to assure you the best possible economies on every call.

- There is no monthly subscription rate, only a low \$15 monthly usage requirement.
- SKYLINE bills in six-second increments after the

first minute, rather than "rounding" up to the next whole minute as most other services do. This can mean up to 25% in savings on an average business call.

- There is no local message unit charge to access our network.
- Our rates, since they're not based on distance, are the easiest to understand. SKYLINE can save you money everytime you call, everywhere you call.

SKYLINE ADVANTAGE OVER COMPETITION (Comparison of 4 typical monthly phone bills**)				
	AT&T	MCI	SPRINT	SKYLINE
1. \$ 150.00	\$125.13	\$126.30	\$ 94.20	
2. \$ 250.00	\$208.55	\$203.75	\$157.00	
3. \$ 500.00	\$417.10	\$407.50	\$314.00	
4. \$1000.00	\$834.20	\$815.00	\$628.00	

\*\*Based upon a comparison of charges for calls of 2-9 minutes duration from Philadelphia to a sampling of 20 cities between 8AM and 5PM weekdays. With SKYLINE, there are no message unit charges. MCI and SPRINT may be even higher because of local message unit charges. Check with your local telephone company. Comparison to other carriers' charges based on tariffs on file with the FCC and in effect as of 2/1/84. Taxes not included.

## Call SKYLINE At 238-5460 For Business Information.

If you're interested in SKYLINE for your business, call us today. A trained telecommunications

expert can show you how SKYLINE can save up to half on your long distance bills.

Call 238-5460 today. The low cost, high quality long distance service built for America's biggest businesses is also available for you. But hurry. You're wasting money on every long distance call until you make your call to us.

For residential service call 1-800-235-2001.

\*You can call anywhere in the contiguous 48 states, including Pennsylvania, but origination of SKYLINE calls is limited to exchanges we currently serve.

- I'm very interested in SKYLINE Long Distance for my business.
- ☐ Please have a representative contact me. (We have long-type phones.)
  - ☐ Please send more information.
  - ☐ Tell me about high-volume SBS SKYLINE™ WATS.
  - ☐ Tell me about SBS SKYLINE™ toll-free for incoming calls.
  - ☐ Tell me about residential service. (1-800-235-2001.)

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Company Name: \_\_\_\_\_

Company Phone: \_\_\_\_\_  
(Area Code)

Company Address: \_\_\_\_\_

Mail To: SBS SKYLINE  
841 Chestnut Street  
Suite 1320  
Philadelphia, Pennsylvania  
Mail this coupon or call 6  
(215) 238-5460.





# Call SKYLINE At 352-4770 For The Lowest Cost Long Distance Service For Your Business.

Any small or medium sized business today must consider the cost saving opportunities offered by the new low cost long distance services. In finding the right service for your company, you've got to consider both quality and cost. SBS SKYLINE<sup>SM</sup> Long Distance offers the lowest cost of any major long distance service with no sacrifice in quality.

## Owned By IBM, ÆTNA and COMSAT.

SBS SKYLINE is a service of Satellite Business Systems, the communications company owned by IBM, ÆTNA and COMSAT. The commitment of these three technological leaders is an assurance of quality service on all fronts.

## Lowest Cost.

In an independent survey conducted in December 1983, ABC's "Good Morning, America" found SBS SKYLINE to be 17% less expensive than MCI, 12% less expensive than SPRINT, 19% less expensive than ITT. The rate chart dramatically underscores how much more you could be paying with other services versus SBS SKYLINE Long Distance.

And rates are only a part of the savings. With SBS SKYLINE:

- There is no monthly subscription rate, only a low \$15 monthly usage requirement.

- SKYLINE bills in six-second increments after the first minute, rather than "rounding" up to the next whole minute as most other services do. This can mean up to 25% in savings on an average business call.
- There are no message unit or pay telephone charges to access service.
- Our rates, since they're not based on distance, are easy to understand.
- There is a 2% discount for prompt payment of invoices.
- SKYLINE can save you up to 50% over AT&T, and up to 20% over the other major long distance companies, everytime you call, everywhere you call.

SKYLINE ADVANTAGE OVER COMPETITION (Comparison of 4 typical monthly phone bills*)				
	AT&T	MCI	SPRINT	SKYLINE
1.	\$ 150.00	\$132.63	\$133.92	\$ 98.55
2.	\$ 250.00	\$221.05	\$216.40	\$164.25
3.	\$ 500.00	\$442.10	\$432.80	\$328.50
4.	\$1000.00	\$884.20	\$865.60	\$657.00

\*Based upon a comparison of charges for calls of 2-9 minutes duration from Washington to a sampling of 20 cities between 8AM and 5PM weekdays. With SKYLINE, there are no message unit charges. MCI and SPRINT may be even higher because of local message unit charges. Check with your local telephone company. Comparison to other carriers' charges based on tariffs on file with the FCC and in effect as of 5/25/84. Taxes not included.

## Call SKYLINE Now At 352-4770

For high quality, low cost long distance call SKYLINE today. A trained telecommunications expert

can show you how SKYLINE can save your business more on out-of-state long distance than any other major service.\*

Call 352-4770 today. The low cost, high quality long distance service built for America's biggest businesses is also available for you. But hurry. You're wasting money on every long distance call until you make your call to us.

For residential service call 1-800-235-2001.

\*You can call anywhere in the contiguous 48 states, Puerto Rico and the U.S. Virgin Islands, but origination of SKYLINE calls is limited to exchanges we currently serve.

I'm very interested in SKYLINE Long Distance for my business.

- ☐ Please have a representative contact me. (We have known him/her.)
- ☐ Please send me more information.
- ☐ Tell me about high-volume SBS SKYLINE<sup>SM</sup> WATS.
- ☐ Tell me about SBS SKYLINE<sup>SM</sup> toll-free for incoming calls.
- ☐ Tell me about residential service. (1-800-235-2001)

Name: \_\_\_\_\_

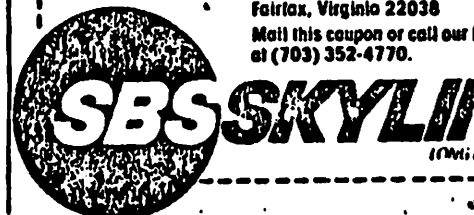
Title: \_\_\_\_\_

Company Name: \_\_\_\_\_

Company Phone: \_\_\_\_\_  
(Area Code)

Company Address: \_\_\_\_\_

Mail To: SBS SKYLINE  
3959 Pender Drive  
Suite 100  
Fairfax, Virginia 22038  
Mail this coupon or call our k  
at (703) 352-4770.



**SUMMARY**

	C&P	NON-C&P	TOTAL
1. LEC ACCESS LINES	1,793,111	581,582	2,374,693
2. ACCESS LINES WITH TOLL-FREE AVAILABILITY TO OCC'S	1,579,826	157,641	1,737,467
3. ACCESS LINES WITH TOLL-FREE AVAILABILITY TO RESELLERS ONLY	38,199	29,717	67,916
4. ACCESS LINES WITH TOLL-FREE ACCESS TO AN AT&T COMMUNICATIONS COMPETITOR (LINE 2 + LINE 3)	1,618,025	187,358	1,805,383
5. PER CENT (LINE 4 ÷ LINE 1)	90	32	76

VIRGINIA EXCHANGES SERVED BY OCC'S  
AND NUMBER OF ACCESS LINES

<u>C&amp;P</u>		<u>NON-C&amp;P</u>	
Arlington/Alexandria	235,145	Charlottesville	41,454
Fairfax/Vienna	87,015	Crozet	2,176
Falls Church/McLean	151,192	Scottsville	1,678
Braddock	12,655	Arcola	1,009
Engleside	13,066	Dulles	782
Richmond	234,706	Princess Anne	3,786
Ashland	6,914	Great Bridge	6,289
Bethia	1,496	Hickory	2,379
Chester	9,748	Manassas	25,016
Manakin	1,906	Haymarket	3,805
Rockville	940	Nokesville	889
Sandston	8,748	Independent Hill	2,413
Varina	2,327	Dale City	10,885
Mechanicsville	10,158	Triangle	5,096
Midlothian	9,009	Occoquan	15,090
Roanoke	83,072	Chancellor	5,495
Bent Mountain	575	Stafford	5,153
Montvale	965	Troutville	3,294
Salem	13,407	Bachelors Hall	1,776
Norfolk/Virginia Beach	244,083	Whitmell	1,635
Portsmouth	58,028	Chuckatuck	884
Newport News	40,317	Holland	708
Hampton	52,916	Lorton	2,793
Peninsula	32,209	Lorton Metro	669
Poquoson	3,799	Bristol	<u>12,487</u>
Lynchburg	49,844		
Concord	1,196	Total	157,641
Petersburg	37,726		
Hopewell	13,193		
Dinwiddie	2,936		
Leesburg	7,485		
Catoctin	2,128		
Middleburg	1,705		
Mount Gilead	2,886		
Herndon	40,636		
Fredericksburg	21,086		
Hartwood	2,596		
Spotsylvania	2,090		
Suffolk	11,913		
Whaleyville	1,107		
Temperanceville	2,834		
Chincoteague	2,121		
Belle Haven	3,971		
Parksley	1,934		
Danville	30,275		
Warrenton	7,502		
Toano	2,659		
Williamsburg	<u>15,607</u>		
Total	1,579,826		

VIRGINIA EXCHANGES  
SERVED ONLY BY RESELLERS  
AND NUMBER OF ACCESS LINES

<u>C&amp;P</u>		<u>NON-C&amp;P</u>	
Christiansburg	8,165	Abingdon	7,515
Blacksburg	18,326	Glade Spring	1,207
Radford	10,036	Meadowview	1,651
Shawsville	<u>1,672</u>	Damascus	1,274
Total	38,199	Konnarock	415
		Fincastle	966
		Eagle Rock	637
		Troutville	3,294
		Woodstock	3,291
		Strasburg	2,518
		Toms Brook	952
		Edinburg	1,888
		Basye	1,032
		Mount Jackson	1,530
		New Market	<u>1,547</u>
		Total	29,717

4 BY MR. MORRISSEY: (Continuing)

5 Q Mr. Wilcox, was the document just  
6 marked for identification as DSW-4 prepared by you or  
7 under your supervision?

8 A Yes, it was.

9 Q And do you have any corrections  
10 to this document?

11 A No, I do not.

12 Q And do you adopt this document as your  
13 testimony in this proceeding?

14 A Yes, I do.

15 MR. MORRISSEY: At this time,  
16 Judge Shannon, I would like to move DSW-4  
17 into evidence.

18 COMMISSIONER SHANNON: It will be  
19 received, subject to cross-examination.

20 BY MR. MORRISSEY: (Continuing)

21 Q Mr. Wilcox, would you give a brief  
22 summary of your testimony, please.

23 A Yes. My testimony explains why  
24 AT&T Communications should be allowed to competitively  
25 price the services that it offers within the Commonwealth

1 Wilcox - Direct

2 of Virginia. AT&T Communications provides no monopoly  
3 services. All the types of services we offer, with the  
4 exception of long-distance operator services, are offered  
5 by our competitors in Virginia. I hasten to add that we  
6 do not have a monopoly on serving rotary-dial customers,  
7 as Dr. Cornell incorrectly asserted. OCCs can provide  
8 service to rotary-dial services customers by ordering  
9 Feature Group B Direct access service, as Mr. Schell  
10 has explained, or by their customers utilizing the  
11 inexpensive tone signaling device.

12 Our competitors, as those present  
13 today have testified, are well financed and managed.  
14 They have succeeded in attracting a significant share  
15 of the markets they have chosen to serve. For example,  
16 our competitors have signed up 50 percent of all business  
17 customers in the areas they serve in Virginia, and 35  
18 percent of the residence customers in those areas. In  
19 addition, 80 percent of these residence and business  
20 customers indicate they use the service for both  
21 intra and interstate calling. These statistics show  
22 that our competitors are providing quality services  
23 that Virginia customers are willing to buy.

24 Our competitors presently serve the  
25 vast majority of customers in the Commonwealth for

1 Wilcox - Direct

2 originating services, and all customers on a terminating  
3 basis. There are currently four OCCs: MCI, GTE-Sprint,  
4 USTS and Western Union, that offer services in the  
5 Commonwealth. There are also 18 resellers, of which we  
6 are aware, that are currently providing service to  
7 Virginia customers. Also, one Domestic Satellite Carrier,  
8 SBS, and two Value Added Networks, Tymshare and GTE  
9 Telenet, offer service to Virginia customers. These  
10 competitors serve over 90 percent of all the main stations  
11 in C&P-served territory in the free-calling areas --  
12 including the free-calling areas. They also serve  
13 customers in the major independent company-served areas,  
14 such as Manassas and Charlottesville, as well as at least  
15 29 other independent company exchanges, such as Abingdon,  
16 Fincastle, Arcola, Toms Brook and Great Bridge.

17 Because resellers do not require  
18 certification from either state or federal regulatory  
19 agencies, it is difficult to keep track of all the  
20 locations they serve. In general, they have demonstrated  
21 in the past the ability to quickly enter any geographic  
22 market they wish, and generally they have been successful  
23 in those markets.

24 AT&T Communications is proud to serve  
25 all communities in the Commonwealth. We believe that this

1 Wilcox - Direct

2 ubiquity is a strength, and we firmly intend to maintain  
3 it. Our rates are geographically uniform today, and  
4 there are no present market or cost reasons for  
5 changing those rates.

6 Finally, my testimony points out  
7 that even if you, the Commission, does not require us  
8 to file tariff prices for your approval, you still  
9 retain a tremendous amount of control over our prices.  
10 That is because access charges, which are regulated,  
11 comprise about 75 percent of our total expenses, and an  
12 even higher percentage of our incremental costs used for  
13 pricing. This Commission sets the major share of our  
14 costs and the competition in the marketplace will drive  
15 our prices, as well as those of our competitors, toward  
16 those costs.

17 That completes my summary.

18 MR. MORRISSEY: Mr. Wilcox is  
19 available for cross-examination.

20 COMMISSIONER SHANNON: All right, it's  
21 now, I think, time to recess until 2:00 o'clock  
22 for lunch.

23 MR. GILLESPIE: Your Honor?

24 COMMISSIONER SHANNON: Yes.

25 MR. GILLESPIE: I think there may be



1 Wilcox - Direct

2 some confusion about the numbering of the  
3 exhibits. I have that the exhibit Mr. Moore --  
4 excuse me --

5 COMMISSIONER SHANNON: We numbered  
6 that as 3. We numbered that 3.

7 MR. GILLESPIE: 3. I'm sorry.

8 COMMISSIONER SHANNON: We numbered  
9 that 3, and we didn't accept it, because the  
10 writer of the letter wasn't here, and of  
11 course, Dr. Alessio's testimony is 1, and  
12 Mr. Schell's is 2, the letter was 3, and  
13 this exhibit was 4. All right?

14 MR. GILLESPIE: Thank you.

15 COMMISSIONER SHANNON: We'll stand  
16 in recess.

17  
18 NOTE: The Commission recessed at  
19 12:30 p.m. for lunch, to reconvene at  
20 2:00 o'clock p.m., this same date.  
21  
22  
23  
24  
25

Wilcox - Cross

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THE BAILIFF: The Commission  
resumes its session.

COMMISSIONER SHANNON: Mr. Gillespie,  
I think we're ready for you to examine  
Mr. Wilcox.

MR. GILLESPIE: Did Mr. Wilcox  
make it back?

MR. MORRISSEY: He's in the  
elevator and is on his way now.

COMMISSIONER SHANNON: I hope it's  
not stuck.

MR. GILLESPIE: I have no questions  
of Mr. Wilcox.

COMMISSIONER SHANNON: You have  
no questions for him?

MR. GILLESPIE: I have none.

COMMISSIONER SHANNON: Does  
Mr. Gambardella have any? We'll wait for  
Mr. Wilcox and let Mr. Gambardella go.

All right, Mr. Gambardella.

MR. GAMBARDELLA: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. GAMBARDELLA:

Q Mr. Wilcox, you graduated from college

Wilcox - Cross

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in 1965; is that right?

A The first time, yes.

Q The first time. And went right to work for Northwestern Bell?

A I did.

Q And then, continuing to work for the Bell System, you took a Master's Degree somewhere along the way; is that correct?

A I did.

Q And you've worked for the Bell System and now its corporate successors for your entire career; is that correct?

A Yes, it is.

Q So I take it you know considerably more about the Bell System and AT&T Communications now than you know about the OCC systems and the details and internal information of their operations; is that right?

A Yes, that would be true.

Q It's true, isn't it, that AT&T Communications of Virginia provides interexchange service throughout the Commonwealth of Virginia?

A Yes.

Q And it's also true, isn't it, that at

1 Wilcox - Cross

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2 least temporarily, AT&T will be the only interexchange  
3 carrier serving some of those customers in Virginia;  
4 isn't that right?

5 A That's true today, yes.

6 Q And that will be true for some time  
7 in the future; won't it?

8 A Well, some time, yes.

9 Q All right. And on Page 4 of your  
10 testimony, you say that in the United States, approximately  
11 "two-thirds of the U.S. population resides in areas now  
12 served by one or more of the OCCs"; is that right?

13 A Yes.

14 Q I take it the other third is the  
15 opposite; that there is no OCC in that area?

16 A That's true, yes.

17 Q So if that national experience applied  
18 to Virginia, then fully one-third of the market in  
19 Virginia would not be served by an OCC; is that right?

20 A If the same proportion held true,  
21 that would be correct.

22 Q All right, sir. Now, I understand  
23 that AT&T Communications doesn't know what its share  
24 of the Virginia market is intrastate; is that right?

25 A Well, what do you mean by share of the

1 Wilcox - Cross

2 market? You're not talking about locations served now, you're  
3 talking about volumes?

4 Q I'm talking about locations served,  
5 customers served.

6 A Oh, well, we do have some data that  
7 shows that -- what the OCCs have been able to do in  
8 the areas that they do serve. I don't have statistics  
9 on number of customers of resellers because they don't  
10 have any requirement to report that, and they don't  
11 report it.

12 Q So you don't know, you've made no  
13 study, I take it, of the areas where you would have  
14 customers but no one else would be served; is that  
15 correct?

16 A Well, I have some data on the exchanges  
17 that both OCCs and resellers serve in Virginia, so by  
18 process of elimination, you could get those. But I  
19 don't know about --

20 Q Have you made that study?

21 A Yes, I have.

22 Q When did you make that study?

23 A Friday, Saturday, Sunday and this  
24 morning.

25 Q I see. You didn't have the study when

1 Wilcox - Cross

2 you filed the petition in this case?

3 A No, I did not.

4 Q All right, sir. And that's why you  
5 didn't produce it in response to discovery requests;  
6 is that correct?

7 A That's correct.

8 Q Are you aware that our discovery  
9 request -- well, strike that.

10 It's fair to say, isn't it, that AT&T's  
11 market share in the country is large?

12 A It's 57.3 percent.

13 Q Is it large?

14 A It's larger than -- I guess.

15 Q I believe on Page 11 of your testimony,  
16 you characterize it as overwhelming; don't you? About the  
17 middle of the page, last word in the line.

18 A No, that isn't -- that does not apply  
19 to AT&T's market share nationwide, that applies to those  
20 situations where we've been compelled to charge prices  
21 below cost.

22 Q And in those areas, your market share  
23 is overwhelming?

24 A Generally, it's a hundred percent.  
25 That's true in Virginia as well.

1 Wilcox - Cross

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2 Q All right. Is that -- is that generally  
3 where you also have no competitors?

4 A No, that's generally, for example,  
5 in Virginia, our private line services, in general, are  
6 under cost, and in this proceeding, MCI, for example,  
7 has not even chosen to file private line tariffs. I  
8 don't blame them.

9 Q So you're making a differentiation  
10 in service by service?

11 A Yes, certainly.

12 Q Okay. Some services you're forced  
13 to charge below cost by regulation and other services  
14 you're forced to charge above cost; is that correct?

15 A That's historically true, yes.

16 Q The implication in your testimony  
17 this morning and in the petition is that AT&T will provide  
18 no monopoly services in Virginia. I shouldn't imply from  
19 that that you meant you wouldn't have any areas where  
20 you're the sole provider of the service?

21 A No, I suspect strongly we are the  
22 sole provider in some localities.

23 Q And the basis of that statement, isn't  
24 it, is that the MFJ and the Plan of Reorganization required  
25 AT&T to divest itself of local exchange service; is that

1 Wilcox - Cross

2 correct?

3 A That's correct.

4 Q That's the sole basis of that  
5 statement?

6 A Well, it's certainly not the sole  
7 basis for it. We're an interexchange carrier. Resellers,  
8 I would classify as interexchange carriers, and they've  
9 shown a remarkable ability to pop up even in small  
10 exchanges. So that in fact one of the greatest trends  
11 going on today in telecommunications is the establishment  
12 by independent companies of their own resale subsidiaries  
13 to serve their communities their exchanges. That's also  
14 true in Virginia. So the fact that we might be the only  
15 carrier in town today certainly doesn't imply that there  
16 may not be one or more additional carriers tomorrow.

17 Q All right, sir. The petition also  
18 states that AT&T owns no bottleneck facilities; is that  
19 correct?

20 A That's correct, yes.

21 Q Am I correct that that statement  
22 means that you divested local exchanges?

23 A Yes, that's true.

24 Q All right. And have you made any  
25 study to determine whether the facilities that AT&T



1 Wilcox - Cross

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2 remains owner of can be used to provide intraLATA service?

3 A Well, yes, we have, in a couple of  
4 different ways. First of all, we have done some studies  
5 of where it would be appropriate for our firm to locate  
6 our Points of Presence, and when you locate additional  
7 Points of Presence, generally you would take into  
8 account the installation of facilities to connect them  
9 with your existing Points of Presence, so that you would,  
10 in essence, be transporting calls intraLATA. You may not  
11 be completing them in that regard, but you are, at least,  
12 transporting them part of the way into the LATA or  
13 further into the LATA.

14 Secondly, we've looked at the  
15 possibility of utilizing FX service to provide sort of  
16 intraLATA WATS from another LATA, if you will. Now,  
17 that doesn't exactly use our facilities as we would  
18 rent under the access tariffs facilities from C&P or  
19 the other Local Exchange Carriers to do that. So we've  
20 looked at least in those two cases of expanding our  
21 presence in the LATA.

22 Q Have you made any study to determine  
23 whether the facilities AT&T owns now can be used as  
24 bottleneck facilities?

25 COMMISSIONER SHANNON: So the record

1 Wilcox - Cross

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2 will be clear, define what you mean by  
3 bottleneck facilities.

4 MR. GAMBARDILLA: Are you asking me,  
5 Your Honor?

6 COMMISSIONER SHANNON: Yes.

7 MR. GAMBARDILLA: Your Honor, I'd  
8 ask the witness to define bottleneck.

9 COMMISSIONER SHANNON: I want to  
10 make sure you're all on the same frequency  
11 here.

12 How do you define bottleneck  
13 facilities, Mr. Wilcox?

14 THE WITNESS: I would define  
15 bottleneck facilities as facilities which  
16 have the capability of being provided by  
17 monopoly service and not being readily  
18 replicated by competitive firms. Local  
19 exchange networks are clearly a bottleneck  
20 facility.

21 COMMISSIONER SHANNON: Bypass  
22 wouldn't have any influence, then, would  
23 it?

24 THE WITNESS: It does, Your Honor,  
25 but bypass is not a network facility, as such,

1 Wilcox - Cross

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2 usually, it's usually a direct facility to a  
3 particular geographic point, like a building  
4 or a plant; whereas the construction of a  
5 local area network to your house and my  
6 house and so on, to many locations,  
7 bringing them into one switching location  
8 defines the bottleneck.

9 COMMISSIONER SHANNON: In that  
10 context then, go ahead, Mr. Gambardella.

11 BY MR. GAMBARDELLA: (Continuing)

12 Q Have you made any studies to determine  
13 whether the facilities AT&T owns currently could be used  
14 as bottleneck facilities?

15 A Yes, we've looked at our facility  
16 plans and I don't know of any way that we could utilize  
17 those as bottleneck facilities. You know, many carriers  
18 today -- we are not among them in Virginia -- but many  
19 carriers today do have a shortage of circuits. Some of  
20 the OCCs are turning away business in certain parts of  
21 the region, and so to a certain extent they would be  
22 ill-advised to utilize their facilities for private line  
23 services, for example, which generate less revenue per  
24 line than for switch services. So in one sense, I guess  
25 you could say that there may be a bottleneck in that the

1 Wilcox - Cross 255  
2 pipe isn't big enough to hold everybody, but it's not a  
3 bottleneck in the classic sense of that term, as we're  
4 using it.

5 Q All right, sir, would you classify  
6 that as a study you've made?

7 A Well, we certainly looked at our  
8 network -- maybe you could define study for me, and I  
9 could answer your question.

10 Q Well, I'm thinking about a formalized  
11 study that could have been produced in discovery, for  
12 example.

13 A Well, I don't know. If you had  
14 asked us for our facility map, we probably would have  
15 made that available to you under protective agreement,  
16 or maybe without it. I'm not sure.

17 Q When did you take a look at the  
18 facility map to decide all of this?

19 A Well, I've looked at the Points of  
20 Presence in Virginia within the last week, within the  
21 last month, within the last two months on a regular  
22 basis.

23 Q Did you generate any business records  
24 as you did that?

25 A Just the maps themselves. We need to

1 Wilcox - Cross 256  
2 look at those to develop cost studies as well.

3 Q And you did some of that before  
4 July 23rd, 1984; is that correct?

5 A We certainly looked at it. I know  
6 I've certainly looked at our facility maps well before  
7 that, but I don't consider our facilities to have any  
8 bottleneck nature to them.

9 Q Mr. Schell said this morning that  
10 AT&T purchases some Feature Group A service from C&P;  
11 is that correct?

12 A From C&P of Virginia, yes, we do.

13 Q And to the extent that that service  
14 would permit some sort of intraLATA service, intraLATA  
15 call completion --

16 A Yes.

17 Q -- does that pose the same block-or-  
18 pay problem as the OCCs now face?

19 A No, it really doesn't in the case of  
20 Feature Group A used for FX, which is what we use it  
21 for. And when I say we buy it, we really purchase it  
22 under two different tariffs. We purchase it under the  
23 Federal tariff for interstate FX, and we purchase it  
24 under their State tariff for intrastate FX, and the two  
25 tariffs are markedly different. In either case though,

1 Wilcox - Cross 257  
2 the use of Feature Group A to terminate a call from the  
3 open end of that line to another point within the LATA  
4 is recorded by C&P, but it is billed as access, not as  
5 long distance. So, in other words, the message billing  
6 indicator is put into their billing system so that  
7 a call from point A to point B within the LATA, point A  
8 being the open end of the FX and point B being another  
9 point within the same LATA is billed under local transport  
10 rates, not under their toll schedule. So they're already  
11 being compensated in their access charge tariffs as they  
12 have written them for those calls.

13 Q All right, sir. Are you familiar  
14 with something called the Block-of-Time Optional Calling  
15 Plan?

16 A Yes, I am.

17 Q And am I correct that AT&T filed that  
18 at the FCC and the Common Carrier Bureau of the FCC  
19 approved it; is that correct?

20 A I think that's essentially right,  
21 yes. I'm not sure of all of the parameters of what  
22 they can and can't approve, but I think what you said  
23 is essentially correct, yes.

24 Q All right, sir. And then the Justice  
25 Department objected to it and asked for a review of it;

1 Wilcox - Cross

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2 is that correct?

3 A Yes.

4 Q It's true, isn't it, that one of the  
5 things the Justice Department said about it was that it was  
6 below cost, and they thought it might be anti-competitive;  
7 isn't that correct?

8 A I believe they said they thought it was  
9 below cost, yes.

10 Q And they also said they thought it  
11 might be anti-competitive under certain circumstances?

12 A I don't know if they used the term  
13 or not.

14 Q Let me show you a copy of the document  
15 that was provided in response to our discovery. This  
16 document is entitled, it was filed "In the Matter of AT&T  
17 Communications, Inc., Revisions of Tariffs FCC No. 263  
18 and FCC No. 1," and the Docket Number is Transmittal  
19 No. 79. It's entitled "Application to the Department of  
20 Justice For Review." And I'd like you just to read --

21 COMMISSIONER SHANNON: What's the  
22 date?

23 MR. GAMBARDILLA: The date, Your  
24 Honor, is July 6th, 1984, stamped in at the  
25 FCC.

1 Wilcox - Cross

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2 COMMISSIONER SHANNON: Thank you.

3 BY MR. GAMBARDILLA: (Continuing)

4 Q And I'd like you to just read a  
5 sentence. I'd like you to just read a sentence beginning  
6 five lines from the bottom of the text there, "Moreover...

7 A "Moreover, if the existing access  
8 charges do reflect costs appropriately or have been  
9 otherwise designed to meet public interest concerns,  
10 AT&T's pricing below those costs may be considered  
11 blatantly anti-competitive or otherwise contrary to the  
12 goals underlying the access charge structure."

13 Q Thank you. Do you understand generally  
14 what they're talking about?

15 A Yes, I do.

16 Q And it would be fair to conclude --  
17 and I'm not asking you to agree with this -- it would be  
18 fair to conclude from that the Justice Department thinks  
19 that plan is anti-competitive?

20 A No, I think it's fair to conclude  
21 from their statement that they don't understand how  
22 access charges work.

23 Q I see.

24 (Laughter)

25 COMMISSIONER BRADSHAW: Is that a



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2 ruling or is that --

3 MR. GAMBARDELLA: No, Your Honor,  
4 that's the Justice Department --

5 COMMISSIONER BRADSHAW: That's just  
6 an inquiry for them to look at this.

7 MR. GAMBARDELLA: Just the Justice  
8 Department's position. I just wanted that in  
9 for the proof that the statement was made,  
10 Your Honor.

11 COMMISSIONER SHANNON: Okay.

12 BY MR. GAMBARDELLA: (Continuing)

13 Q You said this morning, and I believe --  
14 well, let me ask you first: Page 13 of your testimony,  
15 you discuss briefly some advertising results that you  
16 had, and you state that, "We are now on a par with MCI  
17 as far as consumer recognition is concerned"; is that  
18 right?

19 A Yes.

20 Q I take it that there you're talking  
21 only about business for which you'll have to compete  
22 with MCI; is that right?

23 A Well, no, actually not. We take a  
24 study every month of 2,000 business customers which are --  
25 which do not include the, what you might think of as the

1 Wilcox - Cross

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2 Fortune 500 firms, the national account, status customers  
3 are not included in the sample. And we use a combination  
4 of Dun & Bradstreet data and census data to establish  
5 a random sample of those firms throughout the nation,  
6 so that there may be some businesses included in there  
7 that are not in a market area served by competitors.

8 Q All right, what I want to get at  
9 is this: You're on a par with MCI as far as customers  
10 you have to advertise to attract; is that correct?  
11 Is that what your statement means?

12 A What my statement is is that when we  
13 ask these customers, and the customers are screened,  
14 so that we're talking to the person in the firm responsible  
15 for purchasing telecommunications services, when we ask  
16 them, like two questions: One is, you know, can you  
17 name one long-distance company, and then are there  
18 any others is another question. We tally the number of  
19 times they say AT&T or AT&T Communications, and the  
20 number of times they say MCI, Sprint and so on, and  
21 what I'm saying is that the percentage of folks who,  
22 without aid, mention our name is equal to that, to the  
23 number of those who mention MCI.

24 Q All right, so you feel you're equal  
25 with MCI in terms of name recognition now; is that correct?

1 Wilcox - Cross 262

2 A Yes.

3 Q Okay. It's true, isn't it, that you

4 won't have to have name recognition to obtain some

5 customers; isn't that right? There are customers under

6 equal access who don't designate another carrier and

7 AT&T will get that business; isn't that right?

8 A They will get that business in

9 Virginia.

10 Q All right, sir. And so, in that

11 sense, you don't need to be on par with MCI for those

12 customers?

13 A That's true.

14 Q You serve all customers in Virginia

15 now?

16 A Yes, we do.

17 Q Do you think there's any kind of

18 inertia on the part of customers not to change?

19 A Yeah, especially for those that don't

20 make many calls, there certainly is.

21 Q And AT&T is going to get all those

22 customers?

23 A Unfortunately, we are, yes.

24 Q You don't want customers?

25 A Well, I, you know, it's a truism in this

1 Wilcox - Cross 263  
2 industry that high volume equals high profit, and the  
3 reverse is also true.

4 Q You stated, I believe, this morning  
5 orally, and I think you stated in your testimony, that  
6 AT&T has no plans to de-average rates in Virginia; is  
7 that right?

8 A We have no plans to de-average rates  
9 geographically in Virginia.

10 Q All right, sir. Does that mean that  
11 AT&T will charge the same rate for the same service  
12 in all parts of the State?

13 A Well, let's be sure -- yeah, we could  
14 quibble about some private line things, but I think  
15 you're really getting at WATS and toll rates, and the  
16 answer to that question is yes, with regard to those  
17 services.

18 Q All right, sir. And that will apply  
19 to services that exist today and new services as well?

20 A Yes.

21 Q Okay. If your petition is granted  
22 in this case, as you've requested it, there wouldn't be  
23 any requirement on the company to refrain from de-averaging  
24 its rates; would there?

25 A Not to my knowledge, no.

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2 Q So, what we have is a unilateral  
3 commitment of the company which could be changed  
4 unilaterally; is that correct?

5 A Yes, certainly. And the fact is,  
6 however, there just simply isn't any reason to go to  
7 geographic de-averaging on the part of our firm, unlike  
8 that of some of our competitors.

9 Q And I believe you said that on Page 18  
10 of your testimony, or 17 and 18, over onto 18, and what  
11 you say is that, "While there are economic realities  
12 and cost imperatives involved in serving rural areas  
13 which must be faced in the future, it is AT&T's policy  
14 to maintain its current statewide rate uniformity by  
15 service category."

16 A Yes.

17 Q What are those economic realities  
18 and cost imperatives we're going to face in the future?

19 A Well, as the amount of subsidy is  
20 phased down in the access charges, the amount of  
21 differential between serving a remote exchange and one  
22 relatively near a carrier's Point of Presence becomes  
23 proportionately greater. Today our access charges  
24 on a minute-of-use basis intrastate may range anywhere  
25 from 16 to 20 cents a minute. The variability of serving

1 Wilcox - Cross

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2 a small remote exchange to serving the large exchange  
3 in which your Point of Presence is located is on the  
4 magnitude of a couple of cents. So it isn't worth  
5 the marketing effort and explanatory work that would  
6 have to be done with our sales folks, answering inquiries,  
7 trying to publish sensible advertising, it isn't worth  
8 all those costs and effort to try to get at something  
9 that represents something less than ten percent of your  
10 total access bill. And that's on additional minutes,  
11 by the way. On initial minutes, we're looking at  
12 probably a 30 to 32-cent access charge for the first  
13 minute, which includes billing and collection charges.  
14 There just isn't any sense today, as far as I'm  
15 concerned, to de-average for a couple of cents.

16 Q All right, sir. How long is that  
17 going to continue?

18 A Well, I'm certainly not in control  
19 of how that subsidy is phased down. Our position has  
20 been that it should take place over a three to five-year  
21 time frame. So as you get down to -- let's say you  
22 eliminate all subsidies from access charges and switch  
23 to access, the local exchange companies are reimbursed  
24 for their costs, plus rate of return. If you did that,  
25 then you might have the situation where serving a remote

Wilcox - Cross

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exchange might represent a cost increase of some 33 percent, compared to serving a close and larger exchange. However, your total cost would have gone down 60 to 70 percent, so that what would happen is that the rates in rural areas would come down either more slowly or less than they would come down in the major metropolitan areas of the State.

Q So, is the Company prepared today to commit to this policy for three to five years; is that what you're saying?

A I'm committed to the policy that we're going to follow our costs.

Q All right, sir. And your costs might change tomorrow, and the Commission wouldn't know that, you'd change the tariff and you wouldn't file them here, and would be de-averaged; is that right?

A Well, I think the people in Toms Brook would be delighted to know that their rates went down 50 percent. They might not be delighted to know they went down 58 percent in Roanoke, but I think they'd like to have their rates cut 50 percent, and that's about what would happen if access charges were set at cost without subsidy to non-traffic-sensitive charges.

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2 Q Let's assume access charges stayed  
3 where they are.

4 A All right.

5 Q What's going to happen to those people  
6 in Toms Brook?

7 A They're probably going to pay the  
8 same rates they're paying now, as least from us.

9 Q For how long?

10 A Forever.

11 Q A more correct answer to that really is  
12 you don't know, if the cost changed, you might change it  
13 tomorrow, you might change it never; isn't that a fair  
14 statement?

15 A No, that's an inaccurate statement.  
16 If our cost changes, our prices have to change, there  
17 isn't any question about that. If our costs go down,  
18 our prices go down. And they will go down relative  
19 to the drop in the cost in those areas, if the  
20 differential becomes great enough to warrant de-averaging.  
21 There are a lot of marketing disadvantages to de-averaging.

22 Q All right, sir. Is it always true  
23 that in the competitive market, that when your costs go  
24 up or down, your price changes?

25 A It's not always true. Some businesses



1 Wilcox - Cross

2 go out of business when their costs go up and their  
3 prices cannot.

4 Q All right, sir. And when their  
5 costs go down, sometimes they make a lot of money;  
6 don't they?

7 A Yeah, but that's not the way  
8 competition is supposed to work.

9 Q I see. So can we characterize this  
10 unilateral commitment we've got from the Company as  
11 indefinite?

12 A Well, it's indefinite in the sense  
13 that you don't understand what it means or in duration?

14 Q In duration.

15 A Yes, I think it's indefinite in  
16 duration. I don't know of any way that we can ignore  
17 costs in our pricing.

18 Q So that means it could change tomorrow,  
19 but you don't think it will, or it may never change?

20 A I don't think it will change tomorrow.  
21 We have filed a complaint with this Commission on access  
22 charges, and if, as a result of that, our costs go down,  
23 we'd love to lower our rates.

24 Q If your costs went up --

25 A If our costs go up, we're going to

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2 have to raise our rates, if we can, in those services.

3 MR. GAMBARDELLA: That's all I have,

4 Your Honor.

5 COMMISSIONER SHANNON: Thank you,

6 Mr. Gambardella.

7 Mr. Marmon?

8  
9 CROSS-EXAMINATION

10 BY MR. MARMON:

11 Q Good afternoon, Mr. Wilcox. I'm  
12 William Marmon with MCI.

13 Mr. Wilcox, do you have an academic  
14 degree in economics?

15 A No, I don't.

16 Q And have you authored or published  
17 papers on economic theory or economic effects of  
18 regulation or deregulation?

19 A No, I have not.

20 Q Do you hold yourself out as an  
21 economist?

22 A Certainly not.

23 MR. MARMON: With all due respect,  
24 Your Honors, we would move to strike the  
25 parts of Mr. Wilcox's testimony which deal

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2 purely with questions of economic theory.  
3 Alternatively, we would move that his  
4 testimony be accepted with the qualification  
5 that they are his views with respect to his  
6 company's position and aspirations, but  
7 not as the expert opinion of an economist.  
8 And the parts of the testimony I'm referring  
9 to start on Page 10, the first four and a  
10 half lines after the question: "Does AT&T  
11 Communications' market share enable it to  
12 preclude competitive entry?" That first  
13 sentence there. Page 12, the answer at the  
14 top of the page, the entire answer. And  
15 Page 17, the answer to the question starting  
16 at the top quarter of the page.

17 COMMISSIONER SHANNON: You say the  
18 top of Page 17, the top quarter?

19 MR. MARMON: Yes, Page 17, starting  
20 after the question, "Is continued regulatory  
21 oversight of AT&T's prices necessary?" And  
22 the rest of that page, and continuing over  
23 to the top of Page 18, and, in fact,  
24 continuing through the answer to the next  
25 question on Page 18. And the answer to the

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2 question that starts on Page 18 at the bottom,  
3 and is answered at the top of Page 18, the  
4 first nine lines. And then on Page 20,  
5 the answer that follows the question,  
6 "Will deregulation of AT&T Communications'  
7 intrastate prices be in the best interest  
8 of the general public?"

9 COMMISSIONER SHANNON: What's the  
10 basis of your objection?

11 MR. MARMON: That this testimony  
12 is purely economic theory. For example, on  
13 Page 10, where the question is, "Does AT&T  
14 Communications' market share enable it to  
15 preclude competitive entry," the answer is,  
16 "No. It is apparent based upon the market  
17 penetration that other common carriers and  
18 resellers have made in their targeted  
19 markets that AT&T Communications does not  
20 possess the power," et cetera, that this is a  
21 judgment that requires, and is taken for  
22 expert opinion, judgment that Mr. Wilcox's  
23 background does not qualify him to make.

24 COMMISSIONER SHANNON: In other  
25 words, you're saying that he's not an

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economist?

MR. MARMON: That's right.

COMMISSIONER SHANNON: Mr. Morrissey?

MR. MORRISSEY: Judge Shannon, if that is the sole basis, then I believe it should be ignored. We have never claimed that Mr. Wilcox is an economist. We had Dr. Alessio that did give the economic tenants under which Mr. Wilcox based his views. Mr. Wilcox is a manager of our business, and like all businesses, they don't have economists running the business. Economists give general principles and the business managers take those economic principles into the real practical world and apply them, and that is exactly what Mr. Wilcox is doing, and that is the scope of his testimony. He has taken the economic principles developed by Dr. Alessio of which he is aware as just a businessman and is applying them to show what the actual practical application of those economic principles are in Virginia, and I believe they should be taken with that consideration.

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2 COMMISSIONER SHANNON: Well, the  
3 Commission is of the unanimous opinion that,  
4 of course, Mr. Wilcox is the manager and he  
5 relies upon information from many sources,  
6 and while your objection certainly would go  
7 to the weight that we may give it, it doesn't  
8 go to its admissibility. And so we will let  
9 it stand as is, and we will consider it,  
10 the weight that will be given to it, when  
11 we make our final determination in this  
12 proceeding.

13 MR. MARMON: Thank you.

14 BY MR. MARMON: (Continuing)

15 Q Now, Mr. Wilcox, in answer to a  
16 question of Mr. Gambardella, I think you stated that  
17 there are customers in Virginia for whom AT&T is the  
18 sole provider at this time and in the foreseeable future;  
19 is that correct?

20 A I didn't say in the foreseeable  
21 future. What I said was that we are, I think we are  
22 the only provider in some localities. I can't know that  
23 for sure because I don't know where all of the resellers  
24 may be. They spring up quickly. But I would guess  
25 from the data I do have that we are the only supplier in

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2 some localities in Virginia today.

3 Q And on Page 11 of your testimony,  
4 you state that in some areas, I think you're referring  
5 to country, AT&T has been compelled to charge prices  
6 which are below its costs. Now, would this apply to  
7 Virginia as well?

8 A Certainly.

9 Q AT&T Communications of Virginia is the  
10 wholly owned subsidiary of AT&T Communications, the  
11 successor to AT&T Long Lines; is that correct?

12 A No, AT&T Long Lines is still AT&T  
13 Long Lines.

14 Q Could you explain the corporate  
15 structure into which AT&T Communications of Virginia  
16 fits?

17 A AT&T Communications of Virginia, Inc.  
18 is a wholly owned subsidiary of AT&T, and AT&T Communications,  
19 Inc. is the management arm that manages both the Long Lines  
20 Division and the intrastate companies, such as AT&T  
21 Communications of Virginia, Inc.

22 Q Does AT&T of Virginia have a tariff  
23 setting department, or is this done on a more global  
24 basis?

25 A We have -- well, when you say tariff,

1 Wilcox - Cross

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2 the folks --

3 Q Who sets -- let me rephrase the  
4 question.

5 Who sets -- who makes up the tariffs  
6 for AT&T of Virginia?

7 A My group does.

8 Q Your group is what?

9 A State Pricing Implementation.

10 Q And to what corporate entity does that  
11 report?

12 A AT&T Communications, Inc. To be more  
13 precise, the group that I supervise does cost analysis  
14 work and write tariffs and establish proposed prices to  
15 commissions in the States of New Jersey, Pennsylvania,  
16 Virginia, Maryland and West Virginia.

17 COMMISSIONER SHANNON: Is Long Lines  
18 still a separate entity?

19 THE WITNESS: Yes, it is, sir. It's  
20 an operating, but it's not a legal entity.

21 BY MR. MARMON: (Continuing)

22 Q Do you -- do you have to get permission  
23 from any higher authority to set rates in the states that  
24 you supervise?

25 A Not authority per se, no. I do review



1 Wilcox - Cross

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2 pricing proposals with some of our headquarters folks,  
3 but the main responsibility for proposed prices is mine.

4 COMMISSIONER SHANNON: Well, to whom  
5 do you report?

6 THE WITNESS: I report to a man  
7 named Carl Stuehrk.

8 COMMISSIONER SHANNON: Carl what?

9 THE WITNESS: Stuehrk, S-t-u-e-h-r-k.  
10 And he works in Basking Ridge, New Jersey,  
11 and he has --

12 COMMISSIONER SHANNON: What's his  
13 title?

14 THE WITNESS: He's Director of State  
15 Pricing Implementation.

16 COMMISSIONER SHANNON: And who does  
17 he report to?

18 THE WITNESS: He reports to Larry  
19 Garfinkel, and I don't know what his title  
20 is. It just changed. They had a reorganization  
21 up there. And Larry Garfinkel reports to  
22 Sam Wilcox, who is the Executive Vice-President  
23 for Marketing for AT&T Communications.

24 BY MR. MARMON: (Continuing)

25 Q What is your business standing --

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2 business understanding, Mr. Wilcox, of the term rate  
3 de-averaging?

4 A Well, if we're talking about geographic  
5 rate de-averaging, it would be charging more for the same  
6 service one place than another.

7 Q Are there other forms of de-averaging?

8 A Sure, volume discount plans are de-  
9 averaging.

10 Q Now, in your opening statement, you  
11 said, I think, that there is no current business reason  
12 to geographically de-average in Virginia at this time;  
13 is that correct?

14 A Yes.

15 Q Would that statement apply to other  
16 forms of de-averaging?

17 A No. We de-average our rates today.  
18 WATS is de-averaged toll on the basis of volume.

19 Q Block-of-Time is a de-averaged service?

20 A Certainly, de-averaged by customer  
21 volume.

22 Q Is there any relationship between  
23 bulk discount de-averaging and geographic de-averaging?

24 A Yes, there is, and the link is that  
25 there are more large users in large metropolitan areas

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2 than there are in small rural areas, just because there

3 are more people there. So that bulk discounts tend to be

4 sold more in metropolitan areas than they are in rural

5 areas, and in total volume, not necessarily in proportion

6 to the number of customers there, but just in total.

7 Q Now, you have in your opening statement,

8 and also on Page 18 of your testimony, indicated it is

9 AT&T of Virginia's current policy to maintain statewide

10 uniformity by service category.

11 A Yes.

12 Q Is this a policy that AT&T had on a

13 national basis before January 1, 1984?

14 A I don't know of any geographic

15 de-averaging of rates prior to that time.

16 Q Has this policy been stated by anyone

17 other than yourself at AT&T since January 1, 1984?

18 A I don't know that I've ever seen it

19 in writing.

20 Q Has anyone else stated this policy

21 with respect to Virginia other than yourself?

22 A Not to my knowledge.

23 Q And you say this policy has not been

24 reduced to writing, other than in your testimony in this

25 proceeding?

1 Wilcox - Cross

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2 A Well, I'm the one responsible for  
3 proposing prices here.

4 Q And so when Mr. Morrissey a week ago,  
5 Friday stood up and told the Commission that AT&T would  
6 bring a pledge from the highest levels of AT&T that  
7 its rates in Virginia would not be de-averaged, this is  
8 what we're talking about, your testimony?

9 A I'm it.

10 (Laughter)

11 Q You said, I think, in answer to a  
12 question by Mr. Gambardella that your policy is based on  
13 your current view of what your costs are, your policy is  
14 not to de-average?

15 A Yes, certainly.

16 Q But if your costs change, that policy  
17 could change?

18 A Could very well change.

19 Q Would you have any objection to this  
20 Commission requiring AT&T, as a condition of being  
21 deregulated, not to de-average its prices for some period  
22 of time?

23 A Well, I would object to that if they  
24 didn't order you to do it.

25 Q Would you object to it if they ordered

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us to do it and you to do it?

A Well, if the Commission decides that's the way the interexchange market is going to be in Virginia, they have a perfect right to do that. I would not advise them to do that.

Q Would you argue against it?

A I would argue against it on the basis I don't think that's in the best interest of consumers in Virginia.

Q Why not?

A Well, because any time -- if the access charges filed by the local exchange carriers accurately reflect their costs, then to ignore those costs is to invite interexchange carriers -- and I'm taking the broad definition of that, including resellers and other types -- to make investments to avoid those costs. And that may require, for example, that may incent those businesses to make investments which are not in the best interest of the consumer as a whole, and any time you get away from the actual cost of providing a service in your pricing, you're inviting some sort of arbitrage, and that often works to the betterment of the owners of the arbitraging firm rather than the benefit of the consumers.

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2 Q Well, isn't it true then, Mr. Wilcox,  
3 that this so-called pledge not to de-average, there is no  
4 such thing, but is merely a statement of your current  
5 policy which is no more enduring than the next price  
6 change; would that be a correct statement?

7 A Well, I wouldn't characterize it as a  
8 pledge. It is a statement of our policy today, we do  
9 not geographically de-average. MCI does, for example.

10 Q Now, you stated earlier in our  
11 colloquy here that there are some areas of Virginia  
12 that AT&T is the sole provider?

13 A What I said was, I believe that would be  
14 true. I do not know for sure, but I believe that to be  
15 true.

16 Q Okay. And you've also said that you  
17 really don't know how many that might be?

18 A That's correct, too.

19 Q But you did submit as an exhibit  
20 to your testimony a list of cities served by competitors,  
21 that's DSW-2, Pages 1 and 2?

22 A Yes, that was the best information  
23 we had at the time.

24 Q That's the best information that you  
25 have with respect to where AT&T has competition?

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A Well, actually, I have had a conversation with a couple of people in the last few days, and I know of some additional exchanges served by resellers that I did not know about at the time this testimony was prepared. There are additional independent company exchanges of which I'm aware that have resellers serving them.

Q Would you like to --

A In addition to this list.

Q Would you like to augment your list, now?

A If you'd like.

Q Excuse me, these are only resellers? No other exchanges facilities-based OCCs that would be --

A There are some additional towns served by OCCs as well.

Q I think that would be the most relevant, if we could limit your additions to that.

A All right. It's my understanding that Bristol, Virginia is also served by an OCC out of Bristol, Tennessee, I believe it is. And that is not on this list.

Q Which OCC?

A I'm not sure. And I do have Manassas

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on there.

There's an exchange out of Charlottesville which is served by Sprint by the name of Crozet, C-r-o-z-e-t, and also Scottsville, which have toll-free access to Charlottesville. So they would be additions to this list.

Also, okay, out of Lynchburg, there's an exchange by the name of Concord. Lynchburg is served by Western Union. That would be an addition to this list.

Q Concord?

A Concord. There's an independent company exchange that has EAS to Leesburg, which is served by MCI, and that exchange is Arcola. That would be an addition to the list.

Also --

Q How do you spell that?

A A-r-c-o-l-a.

Also with EAS to Leesburg is Catoctin, C-a-t-o-c-t-i-n and Middleburg and Mount Gilead.

Q Those are all MCI?

A Yes. Well, MCI serves Leesburg, and those four exchanges all have EAS to Leesburg. Western Union also serves Leesburg.

Fredericksburg is served by MCI and the



1 Wilcox - Cross

2 independent exchanges of Chancellor and Stafford have  
3 EAS to Fredericksburg. So they would be additions to  
4 the list, as would the Bell exchanges of Spotsylvania  
5 and Hartwood. Temperanceville is served by Western  
6 Union and is an addition to this list, as would the  
7 exchanges of Chincoteague and Parksley, which have EAS  
8 to Temperanceville.

9 Danville is also served by Western  
10 Union, and that would be an addition to this list.

11 Suffolk is an exchange served by  
12 Western Union and the Bell exchange of Whaleyville and  
13 the independent exchanges of Chuckatuck and Holland would  
14 be additions to this list.

15 Q Chuckatuck and Pollock?

16 A Holland, H-o-l-l-a-n-d.

17 In addition to Danville, there are  
18 two independent exchanges, Bachelors Hall and Whitmill --  
19 Whitmell -- I'm sorry, which are exchanges that have  
20 EAS to Danville, so they would be additions to this list.

21 Roanoke is served by Sprint and MCI  
22 and Western Union, and the independent exchange of  
23 Troutville has EAS to Roanoke, and would be an addition  
24 to this list, as would the Bell exchanges of Bent Mountain,  
25 Montvale and Salem.

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2 The list does contain Petersburg as  
3 an exchange. I'm not sure if that includes Hopewell  
4 and Dinwiddie or not. If it does, if those are in fact  
5 separate exchanges, they should be added to this list.  
6 Petersburg is served by MCI.

7 Those would be the additions served  
8 by one or more OCCs. There are others served by resellers  
9 that would be additions to the list.

10 Q Okay, thank you. On Page 9 of your  
11 testimony, you state, top of the page, "MCI, GTE-Sprint,  
12 Western Union, and USTS are currently active in the  
13 Commonwealth serving at least 48 cities."

14 A Yes.

15 Q Did you mean to include those plus  
16 resellers?

17 A Let me check.

18 I suspect we counted the list, which  
19 includes resellers. I'd have to recount with the  
20 additional list we just gave you.

21 Q Right, but on the original list  
22 which has 48 cities, would you accept that that does  
23 include places that are served only by resellers?

24 A Yes, the original, yes.

25 Q And would you -- could we just let the

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2 record show that -- I can -- I've got these marked. Would

3 you like to read them? I'd like in the record the

4 cities that are served only by resellers. Would you

5 accept my examination of the list, or would you like

6 to make it yourself?

7 A Well, yeah, the list is actually

8 incorrect, because -- and the number 48 may very well

9 be right. For example, Ashland, which is shown on the

10 list as only being served by Allnet, is actually also served

11 by any number of OCCs, because it has EAS to Richmond,

12 as does Bethia -- Bethia -- Bethia -- I should have

13 stayed where I was, as also does Chester, as also does

14 Manakin, as also does --

15 Q I think you've got Manakin on the

16 list.

17 A Well, Manakin is Allnet only, but

18 it is actually served by OCCs as well, because it's in

19 the free-calling area of Richmond, so there should be

20 X's under all the OCCs in those columns wherever

21 they are in Richmond. So Sprint, MCI, Western Union,

22 USTS, all serve Richmond, so they all serve Ashland,

23 Bethia, Chester, Manakin, Mechanicsville, Midlothian,

24 Rockville, Sandston and Varina.

25 Q All right. What about Chesapeake?

1 Wilcox - Cross

2 A Chesapeake is not served by an OCC.

3 Q What about Chester?

4 A Chester is -- Chester is part of the  
5 Richmond free-calling area.

6 Q Now, what is Dulles; is Dulles a  
7 city?

8 A Yes, it's a town, and that is part  
9 of the Washington metropolitan area, and it has EAS to  
10 any number of cities, for example, Arlington, Alexandria,  
11 Fairfax, Vienna, Falls Church, McLean, etc. So that's  
12 served by all of the OCCs.

13 Also, Engleside, Herndon, Lorton,  
14 and Lorton Metro are served by the OCCs.

15 MR. MARMON: Well, this exhibit has  
16 proven to be of fairly ephemeral value. I would  
17 like, though, for what it's worth, which is not  
18 going to be much at this point, to introduce,  
19 I guess it would be DSW-5, which is an  
20 adaptation, an effort by MCI to get a  
21 handle on the list that we were given to  
22 try to quantify the territory in which  
23 AT&T does, in fact, have competition.

24 COMMISSIONER SHANNON: This might  
25 be a good time to take a short recess and let

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Mr. Wilcox look over this thing, and come  
4 back after the recess, and I think we can  
5 tell whether he accepts it or doesn't  
6 accept it.

7

All right, let's take a ten-minute  
8 recess.

9

10

(Recess)

11

THE BAILIFF: The Commission resumes  
12 its session.

13

14

COMMISSIONER SHANNON: All right,  
15 Mr. Marmon, please continue.

16

17

MR. MARMON: All right. As we were  
18 breaking, I was offering as DSW-4 (sic), an exhibit  
19 which is an adaptation of DSW-2, which was  
20 submitted with Mr. Wilcox's testimony --

21

22

COMMISSIONER SHANNON: They are  
23 attachments as we refer to them.

24

25

MR. MARMON: All right -- which was  
submitted as an adaptation of the attachment,  
and it was an attempt to quantify the  
information that AT&T presented with respect  
to coverage of its competitors, and these

1 Wilcox - Cross

2 figures that we have noted by each of the  
3 cities and counties, where some of the  
4 counties and towns come from, the  
5 1982 edition of the Report of the Secretary  
6 of the Commonwealth, based on 1980 census  
7 figures, and for the record, the areas  
8 where AT&T said that it had competition  
9 with facility-based resellers -- with  
10 facility-based OCCs and resellers, the  
11 figures came to about two million out of a  
12 total Virginia population of five and a  
13 quarter million.

14 COMMISSIONER SHANNON: Now, have you  
15 looked this over, Mr. Wilcox?

16 THE WITNESS: Yes, I have.

17 COMMISSIONER SHANNON: Do you accept  
18 it?

19 THE WITNESS: No, it's clearly wrong.

20 COMMISSIONER SHANNON: Well, he  
21 says it's clearly wrong.

22 CHAIRMAN HARWOOD: Let me ask  
23 Mr. Marmon a question, just for my edification.  
24 For instance, I see the city -- as you know  
25 in Virginia, cities are not part of a

1 Wilcox - Cross

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2 county, they are independent cities of first  
3 or second class, as found in the Report of the  
4 Secretary of the Commonwealth. So I see, for  
5 instance, the City of Richmond, and I'm  
6 certain that the population there is correct  
7 with the census, but within the Richmond  
8 metropolitan area, the calling area for where  
9 we live, you have Chesterfield and Henrico County,  
10 which I would imagine are a half million people,  
11 probably.

12 COMMISSIONER BRADSHAW: And Hanover.

13 CHAIRMAN HARWOOD: And Hanover, which  
14 is a half million people, and I think this is  
15 the problem we have, I think the exhibit for  
16 the cities is probably correct, but it does  
17 not take into account that the counties --

18 MR. MARMON: I recognize that,  
19 Your Honor. We were dealing with this Friday  
20 night with what we had. We thought it would be  
21 at least a start at a quantification. We  
22 don't contend it's the last word; obviously,  
23 it's not, because of the corrections and  
24 additions that we hear of today, but it was  
25 the best that we had.

1  
2 CHAIRMAN HARWOOD: Could we have  
3 the figure substituted for total population  
4 of the State of Virginia, total city  
5 population of the State of Virginia?

6 MR. MARMON: Do we have the total?

7 CHAIRMAN HARWOOD: The total  
8 population of all the cities in Virginia,  
9 so we would have a figure of a million nine  
10 hundred thousand out of X number of citizens  
11 who live in a city.

12 MR. MARMON: We could certainly try  
13 to get that from this book. I'm not sure  
14 that we can derive that figure.

15 COMMISSIONER SHANNON: Of course,  
16 for the reason that Judge Harwood said,  
17 there's a certain amount of speculation  
18 you're going to put in these figures, because  
19 we know in the Richmond metropolitan area,  
20 there's 600-700,000 people.

21 MR. MARMON: And we recognize that,  
22 and we submit this only as, as the best  
23 effort that we could make with the information  
24 that we had with respect to, to the areas.

25 COMMISSIONER SHANNON: Well, maybe it



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2 would be better, since Mr. Wilcox says he  
3 doesn't agree with it, maybe it would be  
4 better to put it in through your witness.

5 MR. MARMON: Well, it's -- he doesn't  
6 agree with it on what grounds?

7 THE WITNESS: It's wrong.

8 (Laughter)

9 MR. MARMON: Well, it's not wrong  
10 under the -- it's not inaccurately describing  
11 what I had done.

12 THE WITNESS: Yeah, what you did  
13 was wrong, that's right.

14 In other words, it doesn't in any  
15 way portray the relative appearance of OCCs  
16 as opposed to AT&T in Virginia. Now, you know,  
17 I do have some data -- as I mentioned, we've  
18 been working over the weekend, and I apologize  
19 for the, frankly, the crumminess of this  
20 DSW-2. We've done the best we can. It's  
21 tough to get this information. I can tell you  
22 every exchange in Bell's territory that has  
23 service from an OCC or an independent, or --  
24 I'm sorry, or a reseller, and I can tell you  
25 that those exchanges comprise 93 percent of the

1 access lines that C&P serves. And I think  
2 that's a relative measure of presence as  
3 opposed to some population numbers, which  
4 may or may not apply to the exchange.  
5

6 COMMISSIONER BRADSHAW: Let me make  
7 a suggestion: We've got to come back tomorrow,  
8 it looks like. MCI has this exhibit; could you  
9 prepare one by tomorrow afternoon showing  
10 yours; and we will just look at both?

11 THE WITNESS: Sure.

12 COMMISSIONER BRADSHAW: And weigh  
13 the evidence.

14 COMMISSIONER SHANNON: I think that's  
15 a good suggestion. We don't want anything  
16 in this record based on conjecture or  
17 speculation. We want it as accurate as  
18 we can make it, and that's what you want, too,  
19 Mr. Marmon, I'm sure.

20 MR. MARMON: It certainly is.

21 COMMISSIONER SHANNON: I think if he  
22 can, over the night -- it's going to put him  
23 to a little work -- if he can come back  
24 tomorrow and supply this information as he's  
25 indicated, I think that would be better.

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2 CHAIRMAN HARWOOD: Let me ask one  
3 further thing: As I understood your testimony,  
4 you had failed to list the exchanges that  
5 have EAS to some of the metropolitan areas,  
6 whether it be the cities or not, and not  
7 included those either?

8 THE WITNESS: Yes, in some cases,  
9 we had neglected to do that, Your Honor.  
10 That's correct.

11 CHAIRMAN HARWOOD: It's my under-  
12 standing from your testimony that what  
13 you're saying, anyone who has EAS to an  
14 area which an OCC has a presence has access  
15 now to an OCC?

16 THE WITNESS: Yes, they do. In all  
17 cases, I think your EAS arrangements are  
18 two-way in Virginia, so that is true.

19 MR. MARMON: Could we -- since we're  
20 going to get this redone, could we get it  
21 broken down between, and separate it OCCs  
22 versus resellers?

23 THE WITNESS: Yes.

24 COMMISSIONER SHANNON: Okay, all right,  
25 go ahead. That's good. Thank you. Please proceed.

1  
2 COMMISSIONER BRADSHAW: Before we  
3 get to the next question, let me ask a question  
4 for the record here. Would you give us your  
5 definition of a reseller, and since they're not  
6 regulated by anyone, how easy it is to get  
7 in the business? What's the procedure?

8 THE WITNESS: Well, a reseller  
9 generally is categorized as an interexchange  
10 carrier that has no interexchange facilities  
11 of their own. They typically buy a smart  
12 PBX, perhaps a Dimension 2000, and they  
13 utilize that in conjunction with WATS or  
14 FX service to provide calling at a discount  
15 from MTS rates to customers that call into  
16 their switch, utilize some sort of accounting  
17 code, identification code, and then they  
18 complete the call on their FX lines or  
19 WATS lines, which they buy from one or  
20 another facility-based carrier.

21 COMMISSIONER BRADSHAW: Well, let's  
22 get back to the point that Mr. Gambardella  
23 was raising earlier, when we made the  
24 rules we were talking about Buffalo Gap.  
25 Suppose AT&T is the only person to enter into

1 Buffalo Gap. If the citizens of Buffalo Gap  
2 wanted to get together and start their own  
3 little cooperative, they would just have  
4 to buy a PBX and some time from you; is that  
5 right, and then sell it at a discount to its  
6 members?  
7

8 THE WITNESS: That's essentially  
9 right, yes.

10 COMMISSIONER SHANNON: Well, they  
11 could go through MCI if they wanted?

12 THE WITNESS: Or they could do it  
13 through MCI or Western Union.

14 COMMISSIONER BRADSHAW: Just forget  
15 Buffalo Gap. I'm not sure where it is --

16 CHAIRMAN HARWOOD: Buffalo Gap is  
17 just outside of Staunton.

18 COMMISSIONER BRADSHAW: Augusta  
19 County, I guess. But it would -- I think  
20 we're overlooking the intelligence of the  
21 people here in these proceedings. They're  
22 smart enough to figure these ways out;  
23 aren't they?

24 THE WITNESS: Oh, yes. In fact,  
25 there are any number of resellers in the

1 independent company territory that you may  
2 at first blush think are not, you know,  
3 would not support a resale operation, but  
4 they do, and you have to remember that you  
5 do have, in Virginia, a fair amount of  
6 EAS which creates bigger markets to  
7 enter, and there's also the possibility  
8 which some of the independent companies  
9 have told us they want to do, or I should  
10 say some of the resellers told us they  
11 wanted to do, which is to connect various  
12 areas through FX arrangements, which are  
13 relatively inexpensive compared to MTS rates.  
14 So that you can create a network that you  
15 can efficiently sell if you have, if you have  
16 the market to do it. And typically, what  
17 that involves is one, or a fair number of  
18 businesses that have significant amounts  
19 of interstate or intrastate calling. And  
20 when you have that situation, it's probably  
21 a good idea for an independent company to  
22 start looking at their own resale subsidiary  
23 to get there first, if you will.

24 COMMISSIONER SHANNON: Just a  
25

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2 time-sharing proposition?

3 THE WITNESS: That's exactly what  
4 it is.

5 COMMISSIONER SHANNON: Go ahead,  
6 Mr. Marmon.

7 MR. MARMON: Okay.

8 BY MR. MARMON: (Continuing)

9 Q On Page 6 of your testimony,  
10 Mr. Wilcox, at the bottom, you say AT&T Communications  
11 provides no type of monopoly service in Virginia?

12 A Yes.

13 Q Now, you've already modified that  
14 in your discussion with Mr. Gambardella with respect  
15 to operator service; have you not?

16 A No, I said in my opening statement,  
17 the summary, that we provide no service currently in  
18 Virginia that our competitors do not offer with the  
19 exception of long-distance operator services. We  
20 certainly have no monopoly on that service, and, in  
21 fact, MCI has announced that they intend to get into  
22 that business. Nothing prevents any carrier from hiring  
23 its own operators and providing that service. It's  
24 certainly not a monopoly service.

25 Q It's a monopoly service today?

Wilcox - Cross

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A It is not a monopoly service today, because we have no way to bar entry into that market.

Q It's not being provided by anyone else but AT&T today?

A That is a true statement.

Q Is it also true that today no other carrier is providing dial 1 premium service in Virginia?

A Would you please define dial 1 premium service to me?

Q A long distance call without extra digits, ten digits.

A Well, I'm not sure that that's true. It would not be true in the case, for example, of an OCC that has their own, as MCI does, their own WATS service, which is accessed by a direct connection. Those calls certainly would not be placed through a seven-digit telephone number, and a PIN number, and all that stuff. It's a direct connection; they dial right through. And I think you have some customers like that in Virginia. I don't know.

Q You don't know of any customers?

A Well, I don't know. I think you do.

Q You do. Who else in the State provides 800 in WATS service besides AT&T?



1 Wilcox - Cross 300

2 A SBS.

3 Q Is it comparable to the 800 in WATS

4 service that AT&T provides?

5 A They say it is.

6 Q What's your opinion?

7 A Yes.

8 Q Are there areas in the State of

9 Virginia that AT&T would like to cease serving at this

10 point?

11 A No.

12 Q But there are areas of Virginia

13 that you serve at below cost?

14 A There are services we provide below

15 cost. I don't know that there is any geographic area

16 in toto, taking all of our services into account,

17 that is below cost. It's possible.

18 Q Do you provide any MTS in the normal

19 long-distance service at below cost in Virginia?

20 A Some of our rates are below cost,

21 yes.

22 Q And could you give us an example

23 of that?

24 A Short-haul, night-weekend rates.

25 Q In any particular geographic locality?

1 Wilcox - Cross 301

2 A All of them.

3 Q All of them. Now, when you cite  
4 the market penetration of OCCs on Page 10 of your  
5 testimony, 19 percent penetration level for residence  
6 customers who make \$25 or more, et cetera --

7 A Yes.

8 Q You don't know, those studies don't  
9 show how much those customers actually used the OCCs  
10 as opposed to AT&T; do they?

11 A I think they may. I don't recall.

12 Q You haven't cited that in your  
13 testimony?

14 A No, I didn't.

15 Q So it's possible that a customer --  
16 that an OCC can sign up a customer and not earn a  
17 single nickel off that customer; is it not?

18 A That's certainly possible, yes,  
19 if the customer didn't make any calls with them, they  
20 wouldn't make any money off them.

21 Q When you sign up with an OCC, you  
22 don't forfeit your right to call over AT&T?

23 A No, that's true, or with another OCC  
24 or a reseller, for that matter.

25 COMMISSIONER SHANNON: Well, even

1                   Wilcox - Cross  
2                   once you have equal access, you'll still  
3                   be able to access the OCC of your choice by  
4                   dialing the additional digits; is that right?

5                   THE WITNESS: That's correct, yes.

6                   COMMISSIONER SHANNON: That will  
7                   always be there?

8                   THE WITNESS: Yes. In fact, the  
9                   1/0XXX applies to resellers as well as OCCs.

10                  COMMISSIONER SHANNON: Yes.

11                  COMMISSIONER BRADSHAW: When would  
12                  it be to your customers' advantage to have  
13                  more than one long-distance carrier?

14                  THE WITNESS: Well, it would be  
15                  to their advantage to use AT&T if they wanted  
16                  to place a call through an operator.

17                  COMMISSIONER BRADSHAW: Other than  
18                  that.

19                  THE WITNESS: Other than that, it  
20                  would not be to their economic advantage,  
21                  necessarily. I think both MCI and Sprint  
22                  are now geographically ubiquitous on the  
23                  terminating side, but some are not. So that  
24                  if you -- if they don't offer the cities or  
25                  the locations you want, you may want to use

1 Wilcox - Cross

2 more than one, especially now that at least  
3 MCI and Sprint have done away with their,  
4 their minimum monthly charge arrangements,  
5 so that for geographic reasons, you might  
6 want to use more than one.

7 BY MR. MARMON: (Continuing)

8 Q Are there any quality reasons why  
9 you might want to have more than one?

10 A Well, you know, the OCCs, MCI in  
11 particular, is touting its quality -- I think Mr. Schell,  
12 I've heard Mr. Schell discuss quality more times than I  
13 care to remember now -- and I don't think quality in  
14 terms, in the sense of transmission, echo, and those  
15 kinds of things, is a major problem for OCCs today.  
16 And I don't think it's a problem for resellers. I  
17 certainly don't think it's a problem for us. I don't  
18 think the quality of what it sounds like is necessarily  
19 a problem. You do have the, you know, the difference  
20 in the digits dialed; that's for sure. If you call that  
21 quality, that is a difference. But I don't think the  
22 quality of transmission is a factor in the usage of one  
23 OCC versus another, to my knowledge.

24 COMMISSIONER BRADSHAW: Well, do you  
25 think the quality of service, would that --

1 would phone repair be a major factor.  
2  
3 in people --

4 THE WITNESS: Well, I have had --  
5 frankly, Your Honor, I have had people tell  
6 me they like AT&T's private-line services  
7 even though they may be more expensive for  
8 that reason, that they can get service when  
9 they need it, and so on. But I've never  
10 heard -- I've not heard a significant number  
11 of people tell me personally that they got  
12 rid of Sprint or MCI, or any of the other  
13 OCCs or resellers because they couldn't  
14 hear the person at the other end of the  
15 call.

16 BY MR. MARMON: (Continuing)

17 Q Just one more question. You say on  
18 Page 19 of your testimony that if the Commission grants  
19 your petition, it will continue to have a large measure  
20 of control over AT&T's prices because it controls the  
21 major share of its costs; you mean access charges there?

22 A Yes.

23 Q Now, isn't it true that if your  
24 petition is granted, that AT&T can charge as much over  
25 access charges or as much below access charges as it

1 Wilcox - Cross

2 wants to?

3 A Well, we'd certainly be constrained  
4 by the market on the up side. In other words, we can't  
5 go out and raise prices 50 percent and expect to keep  
6 business, and on the down side, we'd be restricted by  
7 the amount of money we have. We could do it until it  
8 ran out.

9 Q In your Block-of-Time offering that  
10 Mr. Gambardella was asking you about, isn't it true  
11 that if a customer subscribed to that and used the  
12 full amount of time that he would -- you would actually  
13 be offering it to that customer below the access cost?

14 A I do not have, that is to say,  
15 AT&T Communications of Virginia has not proposed a  
16 Block-of-Time Plan in Virginia. Now, if you're talking  
17 about the Federal plan, the answer to your question is  
18 clearly no, that that plan is offered, and if utilized  
19 by the customer, would make money for AT&T Communications.  
20 It would not be a loser. It is clearly above cost.  
21 The reason for that is that the charges for carrier  
22 common line that are imposed in the Federal access  
23 charges are, in essence, a fixed cost. Although they  
24 come at you on the basis of minutes of use, the total  
25 amount to be raised by those charges in the Federal arena

1 Wilcox - Cross

2 are fixed, so that if the volume estimates which establish  
3 that rate were wrong, and volumes grow, that rate will be  
4 reduced, and the FCC has clearly said that in its Order.  
5 So that the, the major share of access charges in the  
6 Federal arena are, in effect, capped. Those charges  
7 are the MTS-associated rate of the carrier common line  
8 charge. There is no way that increased volumes can  
9 increase that cost. Therefore, that plan is, if  
10 successful, will be a profitable plan. If people take  
11 it and use it, it will provide additional profits to  
12 AT&T Communications.

13 Q Isn't it true that the FCC concluded,  
14 even while approving it, that you were offering it at  
15 below cost?

16 A Certainly not. That is not true.  
17 They did not conclude that.

18 Q You're sure?

19 A Absolutely sure.

20 Q I'd like to read you from Paragraph 7  
21 of the FCC Opinion --

22 MR. MORRISSEY: Excuse me, is that  
23 the FCC Opinion?

24 MR. MARMON: Yes, it is. This is  
25 Memorandum Opinion and Order released

1 Wilcox - Cross

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2 June 6th, 1984, in the Matter of AT&T  
3 Communications, Inc., Revisions to Tariffs,  
4 FCC No. 236.

5 MR. MORRISSEY: Is it the Order  
6 of the FCC or the Common Carrier Bureau?

7 MR. MARMON: It's by the Chief of  
8 the Common Carrier Bureau.

9 MR. MORRISSEY: Thank you.

10 COMMISSIONER SHANNON: That's the  
11 Staff Opinion.

12 MR. MARMON: That's right.

13 BY MR. MARMON: (Continuing)

14 Q "We have not accepted AT&T's attempt  
15 to justify current losses on these grounds. Until  
16 such time as the access charge tariffs are revised,  
17 AT&T's Block-of-Time Plan would appear to remain  
18 unprofitable."

19 Do you disagree that the FCC, that  
20 the Common Carrier Bureau said that?

21 A Well, I don't know the surrounding  
22 statements in that recommendation by the Bureau. I do  
23 know that they recommended that the plan be approved.

24 Q That's true.

25 A And I do know that the FCC, which was



1 Wilcox - Cross

2 your question, has never made a decision one way or the  
3 other.

4 Q And you've already testified with  
5 Mr. Gambardella that the Justice Department thinks that  
6 the Block-of-Time provision is below cost?

7 A Yes, I think the DOJ has asked for  
8 review of that filing because they don't understand how  
9 access charges work, and they think it may be below  
10 cost.

11 MR. MARMON: I have no further  
12 questions.

13 COMMISSIONER SHANNON: All right.  
14 Mr. Magee or Ms. Dupont?

15 MS. DUPONT: Yes.

16  
17 CROSS-EXAMINATION

18 BY MS. DUPONT:

19 Q Good afternoon, Mr. Wilcox.

20 A Good afternoon.

21 Q Mr. Wilcox, you gave us quite a list  
22 of additional cities which you claim are accessible via  
23 the use of OCCs' services, and those cities, or the  
24 accessibility of those cities, by and large, is based on  
25 the use of EAS; is that correct?

1 Wilcox - Cross

2 A Yes, I did not give cities, I gave  
3 exchanges.

4 Q Okay, thank you. Extended Area  
5 Service allows customers to access OCC services via  
6 the Feature Group A interconnection; is that correct?

7 A Yes, that's correct.

8 Q This is the same form of interconnection  
9 which requires customers to dial additional digits to  
10 receive a second dial tone, which lacks answer supervision  
11 and Automatic Number Identification; is that correct?

12 A That is correct, yes.

13 Q Also, inaccessible via rotary-dial  
14 telephones?

15 A That's not correct.

16 Q Well, absent a tone generator?

17 A That's correct.

18 Q This Extended Area Service would not  
19 be useful for an OCC which was utilizing the Feature  
20 Group B Direct form of interconnection which Mr. Schell  
21 discussed; is that correct?

22 A Yes, it would.

23 Q How do you figure that, Mr. Wilcox?

24 A Well, it's a toll-free call to the  
25 950 number.

1 Wilcox - Cross

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2 Q Now, we're talking about Feature Group  
3 B Direct, a direct connection to an end office now, not  
4 a tandem connection.

5 A Yes.

6 Q Am I correct?

7 A Well -- no, I still think that that  
8 is correct.

9 I'm going to have to pass; I don't  
10 know for sure. You'll have to ask Mr. Schell.

11 Q Mr. Wilcox, how many times have you  
12 appeared with Mr. Schell in these various proceedings  
13 and heard him discuss Feature Group B Direct?

14 A Well, that's really two questions.  
15 How many times have I appeared? Well, maybe a dozen.  
16 How often do I listen? Not much any more.

17 (Laughter)

18 Q So you can't tell us whether Feature  
19 Group B Direct would allow a customer to utilize EAS  
20 to access OCC service?

21 A You're right, I can't.

22 MS. DUPONT: Your Honors, I wonder  
23 if, since Mr. Wilcox is unable to respond  
24 to this question, since Mr. Schell is still  
25 in the room, after we conclude cross-

1 Wilcox - Cross

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2 examination of Mr. Wilcox, since this appears  
3 to be additional evidence which has been  
4 presented, this accessibility via EAS,  
5 could I perhaps have an opportunity to put  
6 that question to Mr. Schell?

7 COMMISSIONER SHANNON: Yes, I think  
8 so. Mr. Schell is still here.

9 MS. DUPONT: Thank you.

10 BY MS. DUPONT: (Continuing)

11 Q Mr. Wilcox, you've also discussed the  
12 proliferation of resellers in the interexchange tele-  
13 communications market; is that correct?

14 A Well, proliferation is your word.  
15 There are getting to be more and more.

16 Q Thank you. Could you tell me whose  
17 service would have to be resold by a reseller seeking to  
18 provide ubiquitous service, either originating or  
19 terminating? Would that not, in fact, be AT&T's  
20 service?

21 A I think that a reseller who establishes  
22 their business, or has the ability to provide service  
23 to customers in exchanges served by OCCs can provide  
24 terminating ubiquity through the WATS-like services  
25 of OCCs.

1 Wilcox - Cross

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2 Q Well, Mr. Wilcox, I'm speaking of  
3 ubiquitous termination and origination service. That  
4 would, no doubt, require the use of AT&T's WATS  
5 service; am I not correct?

6 A Well, let's be precise. If a reseller  
7 is going to provide service to customers in an exchange  
8 which does not have originating service from anyone  
9 except AT&T, obviously, they can't resell services that  
10 are not offered, so they would have to be reselling  
11 AT&T's services out of that exchange.

12 Q All right. So a reseller would be  
13 limited to purchasing --

14 A With the exception that if they -- if  
15 they -- let's say that you have a reseller with a switch  
16 in Richmond, and they wanted to provide service to  
17 Bowling Green, an independent exchange where OCCs do  
18 not offer service. They could, if our tariffs were  
19 revised a bit, buy an FX to Bowling Green and provide  
20 terminating ubiquity to Bowling Green customers through  
21 resold OCC WATS-like services from Richmond. So it is  
22 possible that resellers can provide both originating  
23 and terminating ubiquity and still subscribe to the  
24 WATS-like services of an OCC. They would have to  
25 purchase at least some services from AT&T, for example,

1 Wilcox - Cross

2 an FX line.

3 Q Right. So one might say that in  
4 areas where no other facilities-based carrier serves,  
5 a reseller would need to purchase at least some service  
6 from AT&T?

7 A Yes, that's true.

8 Q All right. I have just a brief series  
9 of questions on the de-averaging line. Mr. Wilcox, I think  
10 you stated that it's corporate policy of AT&T at this time  
11 not to de-average rates on a geographic basis; is that  
12 correct?

13 A Yes.

14 Q You said there's nothing in writing?

15 A Well, I didn't say that. My testimony  
16 is in writing.

17 Q Other than your testimony?

18 A I have never seen anything in writing  
19 telling me you have to not geographically de-average  
20 in any particular place. I know that to fulfill my  
21 business responsibilities as a manager for AT&T  
22 Communications, that is a judgment that has to be made,  
23 that needs to be made on a state-by-state basis. It has  
24 to be -- it has to take into account the costs that our  
25 company incurs in providing service, and I state,

1 Wilcox - Cross

2 categorically, in Virginia, that the situation is today  
3 that geographic de-averaging would be a terrible marketing  
4 mistake for our firm, and we're not going to make it.  
5 And it won't become even a sensible thing to do until  
6 the vast majority of MTS subsidies are removed from the  
7 access charge, access charges that we pay.

8 Q Hopefully in three to five years,  
9 according to AT&T's recommendations; is that correct?

10 A I think that would be a reasonable  
11 time frame, yes.

12 MS. DUPONT: Thank you. Those are  
13 all the questions I have of Mr. Wilcox.

14 COMMISSIONER SHANNON: All right.  
15 Any further redirect?

16 MR. MORRISSEY: Just one question.

17 COMMISSIONER SHANNON: All right.

18 REDIRECT EXAMINATION

19 BY MR. MORRISSEY:

20 Q In discussing the de-averaging question  
21 with the various attorneys that cross-examined, they pointed to  
22 your testimony which talked about economic realities  
23 and cost imperatives which have to be dealt with in dealing  
24 with the rural areas. Are those economic realities going  
25

1 Wilcox - Redirect

2 to have to be dealt with by this Commission whether AT&T  
3 is regulated or not?

4 A Yes, they certainly are. Those  
5 economic realities apply to all carriers, and if some  
6 attempt is made to subsidize the interexchange rates  
7 of rural, supposedly more expensive exchanges, we're  
8 going to have the same kinds of problems that we have  
9 today where we built subsidies into toll rates and  
10 shifted them to local exchange rates. You know, it --  
11 if you look at competitive markets, there are things  
12 that are cheaper in smaller towns, and I grew up in  
13 one, and there are things that are more expensive.  
14 And it has to do with the problems of transporting goods  
15 and services to those towns or from those towns.  
16 Telephone service may be more expensive overall in  
17 some rural communities as we go forward. That is an  
18 economic reality that has to be faced. The question is:  
19 How do you transition to it so that you do the least  
20 damage to universal service and to the affordability  
21 of service? But it's certainly a problem, as you all  
22 well know.

23 COMMISSIONER SHANNON: As your access  
24 charges come down, as you say, they're above  
25 cost now, as they come down, then that's going



1 Wilcox - Redirect

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2 to have to be picked up largely by the  
3 local exchange carriers' customers; isn't  
4 that right?

5 THE WITNESS: Yes, I think that's  
6 true, Your Honor. It may not be necessarily  
7 in dial tone line rates. The concept of  
8 life line service, I think, is a viable  
9 one, at least for some period of time, and  
10 it's important to remember, too, that you're  
11 not talking about rural areas, small exchanges  
12 paying more for long distance service. You're  
13 talking about them paying less. But just  
14 perhaps not as much less as the big towns  
15 pay.

16 COMMISSIONER SHANNON: They would be  
17 paying more for local service and less for  
18 long distance service, if you got the  
19 reverse situation that you had when you  
20 had the separations under the old Ozark  
21 Plan, because that was loaded heavily in  
22 favor of the local service carriers; isn't  
23 that right?

24 THE WITNESS: Yes, Your Honor, it  
25 certainly is.

1 Wilcox - Redirect

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2 COMMISSIONER SHANNON: That's what the  
3 Justice Department, and the FCC, and everybody  
4 upset and changed.

5 THE WITNESS: That's correct.  
6 And not the least of which are the competitors  
7 present today will change that.

8 COMMISSIONER SHANNON: Anything  
9 further?

10 MR. MORRISSEY: Nothing further.

11 COMMISSIONER SHANNON: All right,  
12 you may stand down, Mr. Wilcox. Now you will  
13 be back, I guess, tomorrow, to have this  
14 additional information?

15 THE WITNESS: Yes, I will.

16 COMMISSIONER SHANNON: And I suppose  
17 Mr. Marmon will have some questions on that;  
18 is that correct?

19 MR. MARMON: We may. We will be  
20 seeing it, I guess, tomorrow morning for the  
21 first time.

22 COMMISSIONER SHANNON: We certainly  
23 want to give you the opportunity to, if you  
24 have some questions on it.

25 MR. MARMON: Thank you.

Schell - Cross

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COMMISSIONER SHANNON: All right.

Thank you. You may stand down then.

\* \* \* \* \*

WITNESS STOOD ASIDE

COMMISSIONER SHANNON: I believe that you wanted, Ms. Dupont, to ask Mr. Schell a question or two?

MS. DUPONT: Yes, just a brief question or two.

COMMISSIONER SHANNON: Mr. Schell, you may return. You're still under oath, Mr. Schell, and if you'd just be seated and answer Ms. Dupont's questions.

JOHN D. SCHELL, recalled as a witness by and on behalf of the Petitioner, having been previously duly sworn, testifies further as follows, viz:

FURTHER CROSS-EXAMINATION

BY MS. DUPONT:

Q Hello, Mr. Schell.

A Hello again.

Q You were here when I asked the question,

1 Schell - Cross

2 and I'll ask it again for the record: Isn't it true that  
3 via an EAS arrangement, a subscriber could not access  
4 the services of an OCC which was employing Feature  
5 Group B Direct trunking to an end office?

6 A Correct.

7 MS. DUPONT: Thank you.

8 COMMISSIONER SHANNON: That's all?

9 MS. DUPONT: That's it.

10 COMMISSIONER SHANNON: Thank you  
11 very much, Mr. Schell.

12  
13 \* \* \* \* \*

14 WITNESS STOOD ASIDE

15  
16 COMMISSIONER SHANNON: Do you have  
17 anything further, Mr. Morrissey?

18 MR. MORRISSEY: No, sir.

19 COMMISSIONER SHANNON: That's your  
20 case?

21 MR. MORRISSEY: Yes, sir.

22 COMMISSIONER SHANNON: All right,  
23 Mr. Moore and Mr. Marmon, we're ready to hear  
24 your witness.

25 MR. MARMON: We would call Dr. Nina W.

1 Cornell - Direct

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2 Cornell.

3  
4 NINA W. CORNELL, a witness called by  
5 and on behalf of the protestant, MCI, having been first  
6 duly sworn, testifies as follows, viz:

7 DIRECT EXAMINATION

8 BY MR. MARMON:

9 Q Please state your name and business  
10 address.

11 A My name is Nina W. Cornell. My  
12 business address is 1211 Connecticut Avenue, N.W.,  
13 Suite 708, Washington, D.C. 20036.

14 Q And who is your employer, and what  
15 position do you hold?

16 A I'm an economist in private practice with  
17 the firm of Cornell, Pelcovits & Brenner Economists,  
18 Inc., of which I am President.

19 Q And would you briefly describe your  
20 educational experience and professional background?

21 A I have a Master's Degree and a Ph.D.  
22 in Economics from the University of Illinois. Before  
23 entering private practice in 1981, I was Chief of the  
24 Office of Plans and Policy at the Federal Communications  
25 Commission for three years, and as Chief of the Office

Cornell - Direct

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of Plans and Policy, I served as chief economist for the Commission.

Prior to being with the FCC, I was a Senior Staff Economist for regulatory transportation, environmental and health and safety issues for the Council of Economic Advisors from about 1977 to 1978. I also did communications work for them.

Prior to being with the Council of Economic Advisors, I was employed for almost a year as an economist with the Council on Wage and Price Stability.

Before joining the Federal Government, I spent four years at the Brookings Institution doing a variety of natural resource regulatory communications economics.

MR. MARMON: All right. I would like to introduce as NWC-1 -- NWC-5, is it?

COMMISSIONER SHANNON: The next one will be 5.

MR. MARMON: Which is a curriculum vitae of Dr. Cornell.

COMMISSIONER SHANNON: That will be so marked and received as Exhibit NWC-5.

1 Cornell - Direct

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2 BY MR. MARMON: (Continuing)

3 Q I have handed you, Dr. Cornell, what  
4 has been marked NWC-5; is that a curriculum vitae that you  
5 prepared?

6 A Yes, it is.

7 MR. MARMON: I would move that that  
8 be admitted in lieu of any further discussion  
9 of Dr. Cornell's qualifications.

10 COMMISSIONER BRADSHAW: That's  
11 accepted.

12 COMMISSIONER SHANNON: That's  
13 accepted.

14 BY MR. MARMON: (Continuing)

15 Q Dr. Cornell, what is the purpose of  
16 your testimony here today?

17 A The purpose of my testimony is to  
18 address what issues this Commission should examine before  
19 it grants AT&T Communications of Virginia's petition to be  
20 deregulated in the provision of intrastate inter-city  
21 services. Critical to this examination is an analysis  
22 of whether market forces can replace regulation as a  
23 means of protecting consumers.

24 Q And why, Dr. Cornell, did states  
25 originally adopt traditional common carrier regulation?

2           A           The decision in the past by states  
3 such as Virginia to impose traditional common carrier  
4 regulation on telephone companies was based upon the  
5 assumption that telephone companies were monopolies  
6 with substantial market power, including the ability  
7 to raise prices substantially above cost and summon  
8 all markets without fear new companies would enter  
9 the market and take customers away from the monopoly  
10 company. In other words, because competitive alternatives  
11 did not exist, consumers were thought to be at the mercy  
12 of the monopoly companies, and regulation was assumed  
13 to be necessary to protect those customers. In particular,  
14 legislators feared that telephone companies might use  
15 their market power to set prices substantially above  
16 cost of service, engage in unfair price discrimination  
17 against certain customers, and later against potential  
18 competitors, or provide poor quality or no service to  
19 certain customers in an arbitrary and capricious fashion.

20                   To guard against such possible abuses,  
21 traditional telephone regulation came to include regulation  
22 of the companies' rate of return, specific rates, and  
23 other tariff conditions, as well as control over entry,  
24 expansion of service, construction of new facilities,  
25 discontinuance of service, and actual quality of service.



Cornell - Direct

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Q Now, should this Commission be concerned about these very same problems and possible abuses in the Virginia interLATA market today?

A Yes, this Commission should be concerned about whether AT&T Communications of Virginia has market power and will have market power for some period into the future.

Q If this Commission grants AT&T Communications of Virginia's petition, would this be a streamlining of regulation or deregulation, in your opinion?

A It would be deregulation, in my opinion, because it would release AT&T Communications of Virginia from having to get any approval for any price changes. Indeed, it would release AT&T Communications of Virginia from any responsibility even to notify this Commission of price changes.

Q Would the threat of reregulation, assuming that the Commission granted the petition now, be an effective tool to constrain AT&T Communications of Virginia's behavior, in your opinion?

A No. First, this Commission would not be collecting regularly the kinds of information it would need to know quickly or easily that abuses were occurring.

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Second, reregulation is a heavy weapon. It's not something that you unveil, except in the most dire circumstances. Indeed, reregulation is largely an unknown action, because it has not been used in any degree to date.

COMMISSIONER BRADSHAW: Would the threat from other carriers, the fact that they can move anywhere in the State, be a tool against it? I mean, if they raised the price in Buffalo Gap to a point that you can go out there and make money --

THE WITNESS: Well, the answer is, in the short run, it's not, because no, it isn't easy to go into Buffalo Gap and some of these places where the other carriers are. You've heard about the ease of resale. Of course, resale you can only do it if the carrier whose tariffs you're reselling keeps the same sort of structured tariff differentiation between MTS and WATS, or WATS and private line, depending on what you're going to use. That's very easy to get rid of if you deregulate it. If you're a facilities-based carrier, and you're talking about going into an area where you haven't already got

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2 construction plans underway and things are  
3 well down the pike, you're talking two-  
4 three years potentially before somebody could  
5 get facilities in there. On a facilities-  
6 based basis, which is the real competition  
7 that AT&T faces --

8 COMMISSIONER BRADSHAW: I wasn't  
9 thinking necessarily of facilities-based, maybe  
10 on a leased line or something, until the  
11 traffic warranted facilities.

12 THE WITNESS: Well, there again,  
13 if there isn't somebody whose already built  
14 facilities other than AT&T into Buffalo Gap,  
15 you've got to have somebody build them,  
16 because remember, I just said, resale is  
17 very vulnerable to whatever the carrier  
18 that you're reselling, in that case AT&T,  
19 does with its underpinning tariffs. And  
20 if you're talking about facilities and  
21 AT&T owns the only facilities into Buffalo  
22 Gap, it's going to take somebody two or  
23 three years to get into Buffalo Gap, and in  
24 the meantime, those poor folks in Buffalo Gap,  
25 they're exposed.

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BY MR. MARMON: (Continuing)

Q Dr. Cornell, were you in the courtroom when Dr. Alessio was testifying, I think it was last Friday?

A Yes, I was.

Q Do you remember his saying that the desire of AT&T Communications to be customer-friendly would constrain AT&T Communications' use of its market power?

A I do remember that.

Q And do you agree with his conclusion about the impact of the desire to be customer-friendly?

A I'm afraid not. As far as I can see, a monopoly carrier has basically two incentives to be customer-friendly. If it's regulated, it wants to avoid the wrath of the regulatory body if it's not customer-friendly and the customer complains to the regulators. Or if it's really subject to competition, it wants to be customer-friendly to prevent inroads by the competitors. If the carrier has market power and he applies it, there are carriers that can't make that kind of inroads, therefore it doesn't have to, if it's neither regulated nor facing competition.

Q If AT&T Communications of Virginia does

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have today, and will continue to have market power, how might it use that market power to abuse customers if its rates were totally deregulated?

A Well, the simple way it could abuse its market power would simply be to set its rates well above cost, knowing that it will retain a significant share of the market, based on the rotary-dial exclusion and the digit dialing disparity today, and to keep on doing that, knowing it would have default traffic even out of equal access, which is in the near future. Obviously, though, with equal access, the ability to do this begins to be eroded, at least in those exchanges where there is equal access. Over the longer term, obviously, the way it could exploit its market power is by geographically de-averaging its rates. There's been a lot of discussion of that. Under such a scheme, AT&T Communications could charge more for calls originating on those routes that OCCs, due to the access handicaps and the time that it takes to construct networks, find most difficult to serve. Such de-averaging could take a number of forms. It could be over naming geographic origination points where customers would be required to pay more, or they could do it by only applying it to some services, such as WATS and private line, but not MTS, and that, as I noted, would make resale

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2 much more difficult to help the customers in those  
3 exchanges. They could also do it in kind of a -- I  
4 hesitate to use the word covert -- but in a not as  
5 overt fashion. By studying existing traffic patterns,  
6 AT&T Communications of Virginia could fashion discount  
7 bulk offerings that are unlikely to offer benefits  
8 to any customers in the exchanges not reached by  
9 competitors. As was noted earlier, the majority of  
10 people who use large volumes are in more urban settings.

11 Q Why should this Commission be concerned  
12 if AT&T Communications de-averages WATS or private-line  
13 rates?

14 A Well, again, it goes back to the  
15 issue about resale. To the extent that people are  
16 relying on resale as a means of curbing AT&T's market  
17 power, and therefore hoping not to have to worry about the  
18 problem of competition or not competition, if AT&T  
19 de-averages its WATS or private-line rates such that  
20 there isn't any ability to take those services, add  
21 the cost of switching and the cost of billing, and the  
22 other factors that go into offering a resale service,  
23 MTS-like service, means that the customers for MTS  
24 would face absolutely no competition, either wholesale  
25 or retail.

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Q How should this Commission take into account the three statutory factors: the number of companies providing service, the geographic availability of service from other companies, and the quality of service available from other companies, in deciding whether to grant deregulation of AT&T?

A This Commission should examine the three factors to determine whether AT&T Communications of Virginia has market power now, and whether it will have such power in the future. In doing so, this Commission should be concerned in particular with whether there is now or will be soon interLATA service by alternative carriers in exchanges served by independent telephone companies in rural areas and in areas where exchange service is provided solely on a rotary-dial basis. Due to the inequality of interconnection, and the relative newness of the OCCs, these areas are less likely today to have alternative services available.

This Commission should also consider carefully the service quality difference as perceived by consumers between dial 1 service, that's 1 plus the area code, plus the number you're calling, and a service that requires a minimum of 22 digits, all but seven of which must be entered using tone pulses. For virtually

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2      all exchange customers, only one interLATA carrier can  
3      offer dial 1 service today. Approximately 30 percent  
4      of Virginia consumers will still have only one dial 1  
5      carrier on September 1, 1986, if the current plans  
6      hold. Moreover, as of today, little is known about  
7      whether there are any plans to make choices among  
8      dial 1 carriers possible for the customer groups  
9      mentioned above. To do so would require designing and  
10     implementing equal access to smaller or older switches,  
11     both those owned by C&P that are not now necessarily  
12     covered by the MFJ, and those owned by independents  
13     that do not now face any requirements to provide  
14     equal access.

15                    Q                    In his testimony on Friday, Dr. Alessio  
16     noted that the kinds of disparities in service that you were  
17     just talking about, the quality dial 1 service and the  
18     22 digit service, that these kinds of disparities are  
19     actually the fruit of a competitive process, and are to be  
20     encouraged, and such a process is to be applauded. Do  
21     you agree with that analysis?

22                    A                    Well, I agree in part. He was correct  
23     that competitive markets produce quality differences,  
24     but they do so with each firm free to try to compete  
25     at whichever quality level it wants. In the car market,



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for example, some firms build only luxury cars, some only low-budget cars, and some offer a full line. The telephone market is not like this today. Only one firm, AT&T, can offer Cadillacs. There are no Lincolns, no Rolls Royces, or even Mercedes. Moreover, for most users today, a Cadillac is the only service available, and for some time -- and for some, this will remain true for a very long time to come.

COMMISSIONER SHANNON: All right, let's stop. It's now 4:00 o'clock, and we have an insurance case tomorrow morning at 10:00, and we have this lady on the stand now. Is she the last witness, the only witness you have?

MR. MARMON: Yes, sir, Your Honor, she is.

COMMISSIONER SHANNON: Yours are going to submit their testimony, I believe?

MS. DUPONT: Yes, Your Honor, and I wonder if I -- I don't know if this is an appropriate time to bring this up, but in light of the fact that we -- it appears we will go over until tomorrow, I wonder if we might defer by a couple of days the filing

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COMMISSIONER SHANNON: Could you  
in by Friday?

COMMISSIONER SHANNON: We will --

MS. DUPONT: Thank you so much.

MR. MARMON: I think we have about  
ur, 45 minutes.

MR. GILLESPIE: Perhaps 15 minutes.

Mr. Gambardella?

COMMISSIONER SHANNON: Then Mr. Morrissey?

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2 MR. MORRISSEY: Yes, sir, assuming  
3 that Dr. Cornell will give similar type  
4 testimony as I've heard, I would guess it's  
5 going to be about 10 or 15 minutes.

6 COMMISSIONER SHANNON: Well, we  
7 should, if we start this case tomorrow at  
8 1:00 o'clock, we should be able to finish  
9 it by 4:00 then, I would think.

10 Is that a fair assumption?

11 MR. MORRISSEY: Yes, sir.

12 COMMISSIONER SHANNON: All right,  
13 then, we will stand in recess, and you may  
14 stand down temporarily, Dr. Cornell. We  
15 will stand in recess in this case until  
16 1:00 o'clock tomorrow.

17  
18 NOTE: The hearing was recessed at  
19 4:01 p.m., July 30, 1984, to be continued to  
20 1:00 o'clock p.m., July 31, 1984.

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BIOGRAPHY

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EXPERIENCE

- 2/82 - Present President: Cornell, Pelcovits & Brenner Economists Inc. Microeconomic consulting, primarily in fields of telecommunications, broadcasting, environmental, and antitrust economics. Assignments have included serving as an expert witness before state and Canadian regulatory agencies on many emerging issues in telecommunications such as: the appropriate structure of access charges to interexchange companies; the public interest benefits of competition and of resale; the need to separate the unregulated from the regulated activities of telephone companies; appropriate telephone costing methodology, market rules, and industry structure; the proper costing of Centrex service; the setting of appropriate prices for the sale of embedded terminal equipment; and the appropriate application of cost and demand studies to the design of telephone tariffs; assisting in the cross examination of opposing witnesses and preparation of information requests; sponsoring cellular tariffs in cellular applications to the FCC; and testifying before Congressional committees on the economics of home taping, copyright, and the First Sale Doctrine.
- 3/81 - 2/82 Vice President: Owen, Cornell, Greenhalgh & Myslinski Economists Inc. Microeconomic consulting in telecommunications, broadcasting, environmental, and antitrust economics. Assignments included serving as expert witness in court cases, including U.S. v. AT&T, and before the Public Service Commission of the State of Florida on the public interest benefits of competition in long haul services and of resale, and on standards for access charges for competitors; assisting in preparation of depositions and cross examination of opposing witnesses; preparing an analysis of the economic impact of the broadcasting regulations on the video industry; preparing a cost-benefit analysis of proposed water pollution control regulations for the steel industry and defending it before EPA.
- 5/78 - 2/81 Chief: Office of Plans and Policy, Federal Communications Commission. Responsible for

proposing policy and directing medium and long-range planning for the Commission. During this period, developed an in-house economics capability and functioned as chief economist for the Commission, sat at all Commission meetings, and advised the Commissioners on economic policy issues and alternatives. Directed a staff of 28-35 of mixed disciplines, mainly economics and engineering. Projects of the Office covered such topics as appropriate regulation for common carriers, including involvement in developing a new cost manual, further extensions of resale to switched intercity services, appropriate instances to require separate subsidiaries, and proper regulatory treatment of non-dominant common carriers; direct broadcast satellites; public coast stations; and radio; appropriate policies to achieve an improved UHF TV service; children's television; and how to improve spectrum management.

- 2/77 - 5/78 Senior Staff Economist: Council of Economic Advisers. Covered all areas of regulation except energy for the Council. Some major areas of activity were development of the regulatory analysis requirement in Executive Order 12044; the Regulatory Analysis Review Group; development of policy on various EPA activities such as prevention of significant deterioration of air quality, beverage container deposit legislation, revisions to the Clean Air, and the Clean Water Acts; minerals policy; and carcinogen regulation; also amendments of the laws governing civil aviation, trucking, and communications.
- 6/76 - 2/77 Senior Economist: Council on Wage and Price Stability. Worked on energy issues. Major activity was as lead economist on the Presidential Task Force on Reform of Federal Energy Administration Regulation.
- 8/72 - 5/76 Research Associate: the Brookings Institution. First two years were in Foreign Policy Studies working as the economist on an interdisciplinary study on international institutions for managing oceans, outerspace, and weather modification. Last two years were in Economic Studies working with Charles L. Schultze on energy policy and working on safety and health regulation.
- 9/65 - 6/67 Teaching Assistant: Department of Economics, University of Illinois at Urbana-Champaign.

## PUBLICATIONS

Co-Author, "Access Charge Theory and Implementation: A Slip Twixt Cup and Lip," by Michael D. Pelcovits, Nina W. Cornell, and Steven R. Brenner, (forthcoming in the Proceedings of the Institute of Public Utilities Fourteenth Annual Conference).

Co-Author, "Toward Competition in Phone Service: A Legacy of Regulatory Failure" by Nina W. Cornell, Michael D. Pelcovits, and Steven R. Brenner, in Regulation, July/August 1983.

Co-Author, "The Present Direction of the FCC: An Appraisal," by Nina W. Cornell and Douglas W. Webbink, American Economic Review, Papers and Proceedings, Vol. 73, No. 2, May 1983.

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"For Spectrum Economics," Mobile Times, February 1980; and "More on the Spectrum Economics Debate: Rebuttal for the Proposal," Mobile Times, March 1980.

"The Politics of Policy Analysis," American Journal of Agricultural Economics, vol. 61, no. 4, part 2, November 1979.

"Can Safety Be Mandated?" Economic Effects of Government-Mandated Costs, Public Policy Research Center -- University of Florida, 1978.

Co-Author, Regimes for the Ocean, Outerspace, and The Weather, by Seyom Brown, Nina W. Cornell, Larry L. Fabian, and Edith Brown Weiss, The Brookings Institution, 1977.

Co-Author, "Safety Regulation" by Nina W. Cornell, Roger C. Noll, and Barry Weingast, in Henry Owen and Charles L. Schultze, eds., Setting National Priorities The Next Ten Years, The Brookings Institution, 1976.

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Public Utilities Board for the Province of Alberta, Canada:

- In the Matter of "The Alberta Government Telephones Act", Being Chapter A-23 of the Revised Statutes of Alberta, 1980, as Amended; And in the Matter of "The Public Utilities Board Act", Being Chapter P-37 of the Revised Statutes of Alberta, 1980, as Amended; And in the Matter of an Application by Alberta Government Telephones to the Public Utilities Board for an Order Approving the Deletion of Certain Basic Terminal Equipment (Voice) Services. (On Proper Conditions to Apply to Local Telephone Company Services in order to have a Competitive Equipment Market), 2/10/83.

Public Utilities Commission of California:

- In the Matter of the Application of the Pacific Telephone and Telegraph Company, a corporation, for authority to establish a rate stability plan for Centrex-CO and associated services, to expand Centrex-CO service to smaller line size customers and to lower certain Centrex-CO service rates, Application No. 83-05-45, 12/27-28/83.
- Order Instituting Investigation to determine whether competition should be allowed in the provision of telecommunications transmission services within the state. And related matters. OII 83-06-01, Applications No. 82-12-21, No. 83-10-20, No. 83-05-16, No. 83-05-26, No. 83-05-40, No. 83-06-54, No. 83-07-21, No. 83-08-26, No. 83-09-37, Case No. 83-05-05, 10/21/83.
- Order Instituting Investigation to determine whether competition should be allowed in the provision of telecommunications transmission services within the state, OII 83-06-01, 9/26-27/83.
- In the Matter of the Application of the Pacific Telephone and Telegraph Company, a corporation, for authority to increase certain intrastate rates and charges applicable to

telephone services furnished within the State of California due to increased depreciation expense and Related Cases, Application No. 82-11-07, Application Nos. 83-01-22; 83-06-65; OII 83-04-02, 8/25-26/83.

**Public Service Commission, State of Florida:**

- In re: Intrastate Access Charges for Toll Use of Local Exchange Services, Docket No. 82-537-TP, 9/14/83.
- In re: Petition of MCI Telecommunications Corporation for a Certificate of Public Convenience and Necessity, Docket No. 820450-TP, 3/21/83.
- In the Matter of: Resale of Wide Area Telephone Service and Message Toll Service, Docket No. 1 810239-TP, 1/22/82.
- Application of Microtel, Inc. for a certificate to construct and operate a microwave system, Docket No. 800333-TP, 11/5/81.

**Georgia Public Service Commission:**

- Application of MCI to provide intrastate toll service, Docket No. 3446-U, 2/29/84 (Direct testimony only).

**State of Illinois, Illinois Commerce Commission:**

- In the matter of the application of AT&T Communications of Illinois, Inc. for the issuance of a Certificate of Public Convenience and Necessity to provide interexchange/interMSA telephone and telecommunications services between and among Market Service Areas in the State of Illinois, 83-0648, 6/15/84.
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**Public Service Commission of Indiana:**

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- In the Matter of the Application of MCI City Telecommunications Corporation for Authority to Provide Intercity Telecommunications Service Within the State of Maryland, Case No. 7719, 11-29-83.
- In the Matter of the Application of MCI City



Telecommunications Corporation for Authority to Provide Intercity Telecommunications Service Within the State of Maryland, Case No. 7719, 8/29/83.

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- Petition of the Attorney General for a Generic Adjudicatory proceeding Concerning Intrastate Competition by Common Carriers in the Transmission of Intelligence by Electricity, Specifically as with Respect to IntraLATA Competition, and Related Issues, Filed with the Department on December 20, 1983, D.P.U. 1731, 7/19-20/84.
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Nebraska Public Service Commission:

- In the Matter of the Application of Northwestern Bell Telephone Company, Omaha, Nebraska, for Approval of Tariff Sheets of its General Exchange Tariff, Application No. C-353, 5/5/83.

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- In the Matter of Investigation of Intrastate Telecommunications Competition, BPU Docket 8312-1126, Direct and Rebuttal Testimony, 1/31/84.

North Carolina Utilities Commission:

- In the Matter of: Resale of Intrastate Telecommunications Services, Docket No. P-100, SUB 61, 11/16/82.

Public Utilities Commission of Ohio:

- In the Matter Of The Commission's Investigation Relative To Establishment Of Intrastate Access Charges, Case No. 83-464-TP-COI, 10/17/83.

Oklahoma Corporation Commission:

- Cause No. 28713, 3/26/84.

Pennsylvania Public Utility Commission:

- Generic Access Charge Investigation, Docket No. P-830452, 11/3/83, 3/21-3/22/84.

South Carolina Public Service Commission:

- Docket No. 84-181-C, 7/23-24/84.

Public Service Commission, State of Tennessee:

- South Central Bell Telephone Company v. Southeastern Telecommunications, Inc. and Intercall, Inc. TPSC Docket No. U-82-7167 (on resale), 7/7/82 and 7/3/82.

Public Utility Commission of Texas:

- In re: Petition of the PUC of Texas for an Inquiry Concerning the Effects of the Modified Final Judgment and the Access Charge Order upon Southwestern Bell Telephone Company and the Independent Telephone Companies of Texas, Docket No. 5113, 11/8/83.
- In the Matter of the Petition of Southwestern Bell Telephone Company for Authority to Change Its Rates, Docket No. 4545, 11/3/82.

West Virginia Public Service Commission:

- Case No. 83-259-T-SC, 11/1/83.

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- In the Matter of: Proposed Tariff of Wisconsin Telephone Company for Centrex C.O. Rate Stability, Docket No. 6720-TR-35, 3/15/83.

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- Senate Committee on the Judiciary, Subcommittee on Patents, Copyrights and Trademarks, 10/25/83 [Home Taping of Audio and Video Works].
- Senate Committee on the Judiciary, Subcommittee on Patents, Copyrights & Trademarks, 4/29/83, [Economic Impacts of Repealing the First Sale Doctrine for Audiovisual Works].
- House Committee on the Judiciary, Subcommittee on Courts, Civil Liberties and the Administration of Justice, 9/22/82, Copyright Aspects of Home Audio Taping].
- Senate Committee on the Judiciary, 4/21/82, [Copyright Aspects of Home Videotaping].
- House Committee on the Judiciary, Subcommittee on Courts, Civil Liberties and the Administration of Justice, 4/13/82, [Copyright Aspects of Home Videotaping].
- Senate Committee on the Judiciary, 7/23/81, [Monopolization and Competition in the Telecommunications Industry: Duties of the FCC under S.898].
- House Committee on Energy and Commerce, Subcommittee on Telecommunications, Consumer Protection, and Finance, 5/28/81, [Status of Competition and Deregulation in the Telecommunications Industry: Local Distribution].

- Senate Committee on Government Affairs, Subcommittee on Oversight of Government Management, 10/10/79, [FCC Compliance with Executive Order 12044].
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#### EDUCATION

Ph.D. (Economics), University of Illinois at Urbana-Champaign, June 1972. Doctoral Dissertation: "The Role of the Nobility in Agricultural Change in Russia during the Reign of Catherine II"; M.A. (Economics), University of Illinois at Urbana-Champaign, June 1967; A.B. (Economics), Swarthmore College, Swarthmore, Pennsylvania, June 1964.

#### AWARDS

1978-79 Harold and Margaret Sprout Award for the outstanding study on international ecological or environmental affairs.

#### PROFESSIONAL ASSOCIATION:

American Economic Association

#### PERSONAL:

BORN: February 17, 1942  
Boston, Massachusetts

MARITAL STATUS: Married